

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K



94 26 7420

(Mark One)



**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]**

For the fiscal year ended December 31, 1993

OR



**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-10788

## INTERNATIONAL SPECIALTY PRODUCTS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

818 Washington Street,  
Wilmington, Delaware

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (302) 429-8554

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, par value \$.01 per share ..... New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Commission File Number 33-44862

## ISP CHEMICALS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

Rt. 95 Industrial Area, P.O. Box 37  
Calvert City, Kentucky

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (502) 395-4165

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Commission File Number 33-44862-01

## ISP TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

State Highway 146 & Industrial Road  
Texas City, Texas

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (409) 945-3411

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

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DISCLOSURE  
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### See Table of Additional Registrants Below

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best knowledge of International Specialty Products Inc., in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

As of March 22, 1994, 99,888,646 shares of common stock of International Specialty Products Inc. were outstanding. The aggregate market value of the voting stock held by non-affiliates of International Specialty Products Inc. as of March 22, 1994 was \$123,515,758.88. The aggregate market value was computed by reference to the closing price on the New York Stock Exchange of Common Stock of International Specialty Products Inc. on such date (\$6.375). For purposes of this computation, voting stock held by officers and directors of all of the registrants and GAF Chemicals Corporation, an affiliate of International Specialty Products Inc., has been excluded. Such exclusion is not intended, and shall not be deemed, to be an admission that such officers and directors are affiliates of International Specialty Products Inc.

As of March 22, 1994, ISP Chemicals Inc. and ISP Technologies Inc. each had 10 shares of common stock outstanding. No shares are held by non-affiliates.

As of March 22, 1994, each of the additional registrants had the number of shares outstanding which is shown on the table below. No shares are held by non-affiliates.

### DOCUMENTS INCORPORATED BY REFERENCE

1. The Annual Report to Stockholders of International Specialty Products Inc. for the year ended December 31, 1993 is incorporated by reference in Part II, Items 5, 6, 7 and 8.

2. The Proxy Statement for the 1994 Annual Meeting of Stockholders of International Specialty Products Inc. to be filed within 120 days after the Registrants' fiscal year end (the "Proxy Statement") is incorporated by reference in Part III, Items 10, 11, 12 and 13.

# ADDITIONAL REGISTRANTS

<u>Exact name of registrant as specified in its charter</u>	<u>State or other jurisdiction of incorporation or organization</u>	<u>No. of Shares Outstanding</u>	<u>I.R.S. Employer Identification No.</u>	<u>Address, including zip code and telephone number, including area code, of registrant's principal executive office</u>
ISP (PUERTO RICO) INC.	Delaware	10	13-2626732	Suite 206B, Iturregui Plaza 65th Infanteria Ave. Rio Piedras, Puerto Rico 00924 (809) 768-5400
ISP ENVIRONMENTAL SERVICES INC.	Delaware	10	51-0333801	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
ISP FILTERS INC.	Delaware	10	51-0333796	4436 Malone Road Memphis, TN 38118 (901) 795-2445
ISP GLOBAL TECHNOLOGIES INC.	Delaware	10	51-0333802	818 Washington Street Wilmington, DE 19801 (302) 429-7492
ISP INTERNATIONAL CORP.	Delaware	10	51-0333734	818 Washington Street Wilmington, DE 19801 (302) 429-7493
ISP INVESTMENTS INC.	Delaware	10	51-0333803	818 Washington Street Wilmington, DE 19801 (302) 429-7496
ISP MANAGEMENT COMPANY, INC.	Delaware	10	51-0333800	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
ISP MINERAL PRODUCTS INC.	Delaware	10	51-0333794	34 Charles Street Hagerstown, MD 21740 (301) 733-4000
ISP MINERALS INC.	Delaware	10	51-0333798	Route 116 Blue Ridge Summit, PA 17214 (717) 794-2184
ISP REAL ESTATE COMPANY, INC.	Delaware	10	22-2886551	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
ISP REALTY CORPORATION	Delaware	10	13-2720081	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
VERONA INC.	Delaware	10	22-3036319	NCNB Plaza, Suite 300 7 North Laurens St. Greenville, SC 29601 (803) 271-9194
15- BLUEHALL INCORPORATED	Delaware	10	13-3335905	818 Washington Street Wilmington, DE 19801 (302) 651-0165

## PART I

### Item 1. *General*

International Specialty Products Inc. ("ISP") is a leading multinational manufacturer of specialty chemical products, including specialty derivative chemicals, mineral products, filter products, and advanced materials.

ISP, incorporated in Delaware in 1991, operates its business exclusively through 17 domestic subsidiaries consisting of ISP Chemicals Inc. ("ISP Chemicals"), ISP Technologies Inc. ("ISP Technologies"), the additional registrants, ISP Van Dyk Inc. and ISP Fine Chemicals Inc., 24 international subsidiaries and a joint venture with Hüls Aktiengesellschaft, a German corporation ("Hüls"), in which ISP has a 50% interest and which operates under the name GAF-Hüls Chemie GmbH ("GAF-Hüls"). ISP acquired these subsidiaries and its interest in GAF-Hüls from an affiliate, GAF Chemicals Corporation ("GCC"), in May 1991 in a stock acquisition (the "Stock Acquisition") or created such subsidiaries after the Stock Acquisition. All historical financial data relating to ISP contained in or incorporated by reference in this report have been prepared to reflect the formation of ISP. See Note 1 of Notes to Consolidated Financial Statements contained in ISP's Annual Report to Stockholders for the year ended December 31, 1993 (the "Annual Report"). Except as the context otherwise requires, "ISP" refers to International Specialty Products Inc. and its subsidiaries and their predecessors.

In July 1991, ISP completed an initial public offering of 19,388,646 shares, or 19.4%, of its common stock (the "Initial Public Offering"). Subsequent to the Initial Public Offering, ISP has been an 80.6%-owned subsidiary of GCC. GCC is a wholly-owned subsidiary of G Industries Corp. ("G Industries"). G Industries is a holding company which also owns, directly or indirectly, all of the issued and outstanding stock of Building Materials Corporation of America ("BMCA") and 100% of the capital stock of GAF Broadcasting Company Inc. ("Broadcasting"). G Industries is a wholly-owned subsidiary of G-I Holdings Inc. ("G-Holdings"). G-I Holdings is a wholly-owned subsidiary of GAF Corporation ("GAF"). ISP is indirectly controlled by Samuel J. Heyman, Chairman of the Board of Directors and Chief Executive Officer of ISP and GAF.

ISP Chemicals, ISP Technologies and the additional registrants are consolidated subsidiaries of ISP and, together with ISP Van Dyk Inc., ISP Fine Chemicals Inc. and ISP Newark Inc., constitute all of the domestic subsidiaries of ISP. ISP Chemicals was incorporated in Delaware in 1987 under the name Nordenham Inc. ISP Technologies was incorporated in Delaware in 1991 under the name ISP 6 Corp.

The address and telephone number for the principal executive offices of ISP are: 818 Washington Street, Wilmington, Delaware 19801; (302) 429-8554 or (800) 526-5315. The address and telephone number for the principal executive offices of ISP Chemicals are: Route 95 Industrial Area, P. O. Box 37, Calvert City, Kentucky 42029; (502) 395-4165. The address and telephone number for the principal executive offices of ISP Technologies are: State Highway 146 and Industrial Road, Texas City, Texas 77590; (409) 945-3411.

Financial information concerning ISP's industry segments and foreign and domestic operations is included in Notes 12, 13 and 14 of the Consolidated Financial Statements contained in the Annual Report and is incorporated by reference herein.

#### **Specialty Derivative Chemicals**

*Products and Markets.* ISP manufactures more than 300 specialty derivative chemicals having numerous applications in consumer and industrial products. ISP uses proprietary technology to convert various raw materials, through a chain of one or more processing steps, into increasingly complex and higher value added derivatives to meet specific customer requirements. More than 200 of ISP's specialty derivative chemical products are derived from



acetylene, including intermediates, solvents, vinyl ethers, and polymers, and sales of these products represent the majority of ISP's specialty chemical sales.

ISP's specialty derivative chemicals consist of nine main groups of products: vinyl ethers, polymers, solvents, intermediates, specialty preservatives, sunscreens, emollients, pearlescent pigments and fine chemicals.

Vinyl ether polymers are used in cosmetics and personal care products and pharmaceutical and health-related products, primarily in hair care and dental care products. Vinyl ether monomers and oligomers are used in coatings and inks for both consumer and industrial products.

Polyvinyl pyrrolidone polymers are used primarily in cosmetics and personal care products, pharmaceutical and health-related products and food and beverages and detergent formulations, such as drug and vitamin tablet binders and disintegrants; clarifiers and chill-hazing elimination agents for beer, wine and fruit juices; microbiocidal products for human and veterinary applications; hair care products such as mousses, conditioners, gels and glazes; ingredients in water-resistant mascara, sunscreen and lipstick; film-formers in polishes for consumer and industrial applications and a dispersant in agricultural chemical formulations.

Solvents are sold to customers for use in agricultural chemicals, pharmaceuticals, lithography, wire enamel production, adhesives, plastics, electronic microcopies and integrated circuits, lubricating oil extraction and gas purification applications. ISP's family of solvents includes, among others, N-methyl pyrrolidone, butyrolactone and tetrahydrofuran, certain of which are used by ISP as raw materials in the manufacture of polymers.

Intermediates are manufactured primarily for use by ISP as raw materials in manufacturing solvents and polymers. Some intermediates are also sold to customers for use in the manufacture of engineering plastics and elastomers, agricultural chemicals, oil production auxiliaries and other products. Butanediol, an intermediate produced by ISP, is an essential raw material in the manufacture of polybutylene terephthalate thermoplastic resins and polyurethane elastomers, which are used in the automotive, electronics and appliance industries.

Specialty preservatives are proprietary products that are marketed worldwide to the cosmetics and personal care industries. This portion of ISP's product line was acquired in 1989 from Sutton Laboratories Inc., as part of ISP's plan to expand further its business in the cosmetics and personal care markets. ISP sells a number of preservative products, including Germall® 115, Germall® II, Germaben® II, Germaben® II-E, Suttocide® A and LiquaPar® Oil. Uses include baby preparations, eye makeup, facial makeup, after-shave and nail, bath, hair and skin preparations. Since the Sutton acquisition, ISP has expanded its sales of specialty preservatives in overseas markets through the use of its international marketing and sales force.

On March 31, 1992, ISP, through a newly formed subsidiary of ISP, ISP Van Dyk Inc., acquired certain assets of the Van Dyk Division of Mallinckrodt Specialty Chemicals Company. ISP Van Dyk Inc. produces three multifunctional specialty chemical product lines which ISP markets to the cosmetics and personal care industries—ultraviolet absorber chemicals, the principal active ingredients in sunscreens; pearlescent pigments, which provide the pearly or lustrous color in lipsticks, eye shadows and other cosmetics; and emollients and emulsifiers, which are used as moisturizing and softening agents in a variety of creams and lotions, hair care products and other cosmetics. ISP Van Dyk's Escalol®, Pearl Glo® and Ceraphyl® trademarks are widely recognized for their respective sunscreen, pigment and emollient properties.

On February 8, 1993, ISP, through a newly formed subsidiary, ISP Fine Chemicals Inc., acquired certain assets of MTM Chemicals Inc., a subsidiary of MTM Plc. ISP Fine Chemicals Inc. produces a broad range of pharmaceutical intermediates, biological buffers and pheromones and several bulk active pharmaceuticals which serve the pharmaceutical, biotechnology, agricultural and chemical process industries. Fine chemicals are extremely specialized products, made in small quantities, which because of their complexity can be priced at several hundred to

several thousand dollars per pound. ISP Fine Chemicals Inc. also provides a custom manufacturing capability serving the pharmaceutical, biotechnology, agricultural and chemical process industries.

ISP intends to construct a European manufacturing facility to meet the needs of ISP's European business. The European project will enable ISP to reduce its distribution costs, better serve its growing list of European customers and reduce ISP's exposure to fluctuations in foreign exchange. ISP is currently considering a number of alternative plant sites and plans to develop the facility in stages over a four-to-six year period. ISP anticipates utilizing internally generated funds and/or independent financing to fund the cost of the project. The first phase of the European plant would increase ISP's polymer capacity.

**Marketing and Sales.** ISP markets its specialty derivative chemicals through a worldwide marketing and sales force, consisting of approximately 250 employees, typically chemists or chemical engineers, who work closely with ISP's customers to familiarize themselves with their customers' products, manufacturing processes and markets. ISP conducts its marketing and domestic sales from ISP's headquarters in Wayne, New Jersey and regional offices strategically located throughout the United States.

**International Operations.** ISP markets all of its specialty derivative chemicals worldwide. ISP conducts its international operations through 24 subsidiaries and 31 sales offices located in Western and Eastern Europe, Canada, Latin America and the Asia-Pacific region. Services of local distributors are also used to reach markets that might otherwise be unavailable to ISP.

ISP had a significant portion of its international sales in 1993 in countries in Western Europe and Japan which are subject to currency exchange rate fluctuation risks. For a discussion of ISP's policy to manage these risks, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Financial Condition" contained in the Annual Report. Other countries in which ISP has sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation, and general instability. These factors may affect the sales and profitability of ISP in certain markets included in its growth strategy, such as Asia, the Commonwealth of Independent States (CIS) and Latin America.

International net sales in 1993 of ISP's specialty derivative chemicals, excluding sales by GAF-Hüls, were approximately 48% of total 1993 sales. GAF-Hüls, a joint venture in which ISP holds a 50% interest, produces certain intermediates and solvents. The GAF-Hüls plant is located in Marl, Germany.

**Raw Materials.** The principal raw materials used in the manufacture of specialty derivative chemicals are acetylene, methanol and methylamine. Most of these raw materials are obtained from outside sources pursuant to long-term supply agreements. Acetylene, a significant raw material used in the production of most specialty derivative chemicals, is obtained by ISP for domestic use from two unaffiliated suppliers pursuant to long-term supply contracts. At ISP's Texas City and Seadrift, Texas plants, acetylene is supplied via pipeline by a neighboring large multinational company that generates this raw material as a by-product from ethylene manufacture. At ISP's Calvert City, Kentucky facility, acetylene is supplied via pipeline by a neighboring company that generates it from calcium carbide. The acetylene utilized by GAF-Hüls is produced by Hüls, using a proprietary electric arc process, sourced from various hydrocarbon feedstocks. ISP believes that this diversity of supply sources, using a number of production technologies (ethylene by-product, calcium carbide and the electric arc), tends to create a reliable supply of acetylene. In the event of a substantial interruption in the supply of acetylene from current sources, no assurances can be made that ISP would be able to obtain as much acetylene from other sources as would be necessary to meet its supply requirements. ISP has a long-standing agreement with GAF-Hüls to import butanediol into the United States for use as a feedstock for the production of ISP's solvents and polymers. ISP has not experienced an interruption of its acetylene supply that has had a material adverse effect on its sales of specialty derivative chemicals.

With regard to raw materials other than acetylene, ISP believes that in the event of a supply interruption it could obtain adequate supplies from alternate sources. Raw materials derived from petroleum or natural gas are used in many of ISP's manufacturing processes and, consequently, the price and availability of petroleum and natural gas could be material to ISP's operations. During 1992 and 1993, crude oil and natural gas supplies and prices remained constant with some seasonal and weather related variations.

### **Mineral Products**

*Products and Markets.* ISP manufactures mineral products consisting of ceramic colored roofing granules, which are produced from rock deposits that are mined and crushed at ISP's quarries and colored using a proprietary ceramic chemical coating process. ISP's mineral roofing granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection and increased weight. ISP is the second largest of only two major suppliers of colored roofing granules in North America. ISP also markets granule by-products for use as mineral filler for asphalt roofing products and the construction of clay tennis courts.

ISP estimates that more than 80% of the asphalt shingles currently produced by the roofing industry are sold for the reroofing/replacement market, in which demand is driven not by the pace of new home construction but by the needs of homeowners to replace existing roofs. Homeowners generally replace their roofs either because they are worn, thereby creating concerns as to weather-tightness, or because of the homeowners' desire to upgrade the appearance of their homes. ISP estimates that the balance of the roofing industry's asphalt shingle production historically has been sold primarily for use in new housing construction. Sales of ISP's colored mineral granules have benefitted from a trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles, which results in both functional and aesthetic improvements which require, on average, approximately 25% more granules than traditional three-tab, lightweight roofing shingles.

*Marketing and Sales.* BMCA purchases 100% of its colored roofing granule requirements from ISP (except for the requirements of its California roofing plant). These purchases constituted approximately one-half of ISP's mineral products net sales in 1993. Sales to GAF Building Materials Corporation, which formerly operated BMCA's business, were made under a requirements contract which expired on December 31, 1993. Although such contract has expired, BMCA has continued to purchase, and intends to continue to purchase, and ISP intends to continue to supply to BMCA, all of such requirements. ISP and BMCA intend to enter into a new long-term supply contract in 1994.

*Raw Materials.* ISP owns rock deposits that have specific performance characteristics, including weatherability, the ability to reflect UV light, abrasion-resistance, non-staining characteristics and the ability to absorb pigments. ISP owns three quarries, each with proven reserves, based on current production levels, of more than 20 years. ISP has in recent years purchased land adjacent to its quarries for potential additional reserves.

### **Filter Products and Advanced Materials**

ISP manufactures and sells filter products, consisting of pressure filter vessels, filter bags and filter systems, and sells cartridges and cartridge housings. These filter products are designed for the treatment of process liquids, with the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries accounting for approximately 85% of ISP's 1993 net sales of filter products.

ISP manufactures pressure filter vessels at a plant in Brazil, which serves both local and international markets. ISP also manufactures filter bags in Belgium, Canada, Singapore, Brazil and in the United States and supplies filter products worldwide through its subsidiaries, sales offices and distributors.

ISP manufactures a variety of advanced materials, including high-purity carbonyl iron powders, sold under ISP's trademark Micropowder™, used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food industries. Using proprietary technology, ISP manufactures more than 50 different grades of Micropowder™ iron, one of which is sold under the trademark Ferronyl®, for use as a vitamin supplement.

The primary markets for ISP's Micropowder™ are the domestic defense industry, which employs these products in a variety of coating systems and molded panels for stealth purposes in aircraft and naval ships, and the emerging metal injection molding segment of the powder metallurgy industry. ISP is the sole domestic manufacturer of carbonyl iron powders.

ISP also manufactures a line of processless, electronically imaged film products, including RAD-SURE™, which is a radiation sensitive film strip affixed to blood bags to indicate whether or not they have been properly irradiated.

### Competition

ISP believes that it is either the first or second largest seller worldwide of most of its specialty derivative chemicals other than butanediol and tetrahydrofuran. Butanediol, which ISP produces primarily for use as a raw material, is also manufactured by a limited number of companies in the United States, Germany, Japan and Korea. Tetrahydrofuran is manufactured by a number of companies throughout the world. While there are companies, other than ISP and its principal competitor, that manufacture a limited number of ISP's other specialty derivative chemicals, the market position of these companies is much smaller than that of ISP. In addition to ISP's competition as noted above, there are other companies that produce substitutable products for a number of ISP's specialty derivative chemicals. These companies compete with ISP in the personal care, pharmaceutical, beverage, preservative and industrial markets and have the effect of limiting ISP's market penetration and pricing flexibility.

With regard to its mineral products, ISP has only one major and one smaller competitor and believes that competition has been limited by: (i) the substantial capital expenditures associated with the construction of new mineral processing and coloring plants and the acquisition of suitable rock reserves; (ii) the limited availability of proven rock sources; (iii) the complexity associated with the engineering, design and construction of a mineral processing and coloring plant, together with the technical know-how required to operate such a plant; (iv) the need to obtain, prior to commencing operations, reliable data over a substantial period of time regarding the weathering of granules in order to assure the quality and durability of the product; and (v) the difficulty in obtaining the necessary permits to mine and operate a quarry.

With respect to filter products, ISP competes with a number of companies worldwide. With respect to advanced materials, ISP is the sole domestic manufacturer of carbonyl iron powders and one of only two manufacturers worldwide.

ISP has experienced new competition in its intermediate and solvent product lines in the past two years.

In intermediate products, a number of new competitors both domestic and international have built new capacity, and ISP anticipates overcapacity in this product market for some time to come. ISP has not built additional capacity for such products since 1985. Intermediate products, which accounted for less than 10% of ISP's 1993 specialty derivative chemical sales, and an even smaller percentage of operating results.

A new competitor entered the market for solvent products in 1992, resulting in lower prices and decreased sales of solvents for ISP. ISP believes, in the longer term, that solvents should be a growth area as its engineered solvents

product line will replace chlorinated and toxic solvents such as methylene chloride and trichloroethylene, volatile chemicals such as acetone, and ozone-depleting chlorofluorocarbons. This is a new and expanding market for ISP solvents. Furthermore, ISP has also been developing proprietary, engineered solvents for niche applications which represent areas of new opportunity. ISP is also providing its customers with an additional service called Respond Environmental Management, to enable the establishment of on-site recycle capability or off-site reclamation. Under this service, ISP arranges for the pick-up and analysis of the used solvents.

### **Research and Development**

Since the beginning of 1993, ISP has maintained its research and development efforts at a constant dollar basis when compared to 1992. Worldwide research and development expenditures in 1992 were \$21.1 million and \$21.2 million in 1993. See Note 2 of Notes to Consolidated Financial Statements contained in the Annual Report.

ISP's research and development department, consisting of approximately 200 persons dedicated principally to specialty derivative chemicals, is located primarily at ISP's worldwide technical center and laboratories in Wayne, New Jersey. Additional research and development is conducted at the Calvert City, Kentucky and Texas City, Texas plant sites, the Chatham, New Jersey facility, ISP Van Dyk's Belleville, New Jersey facility and ISP's laboratories in the United Kingdom, Germany and Singapore. ISP's mineral products research and development facility, together with its recently opened customer design and color center, is located at Hagerstown, Maryland.

### **Patents and Trademarks**

ISP owns approximately 450 domestic and 180 foreign patents and approximately 55 domestic and 500 foreign trademark registrations related to the business of ISP. ISP does not believe that any single patent, patent application or trademark is material to ISP's business or operations and believes that the duration of its existing patents and patent licenses is satisfactory.

### **Environmental Services**

By resolution dated December 28, 1993, the New Jersey Hazardous Waste Facilities Siting Commission ("Siting Commission") designated ISP's Linden, New Jersey property as suitable for the construction of a hazardous waste disposal facility. The site designation is conditioned on ISP securing permission from the New Jersey Turnpike Authority to build access ramps for the transportation of hazardous waste to the designated site and has been appealed by the City of Linden. If ISP is successful in securing the necessary permits to construct and operate the hazardous waste facility, ISP intends to develop and operate the facility in a separate subsidiary, either on its own or in a joint venture with a suitable partner. If ISP develops and operates the facility on its own, it would require the consent of the banks under its Credit Agreement. ISP estimates that the cost of constructing the facility will be approximately \$100 million and, if approved, the facility is anticipated to be in operation by 1997. If the required approvals and permits are obtained, ISP anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor and, accordingly, would not expect such facility to impact materially ISP's liquidity or capital resources.

### **Environmental Compliance**

Since 1970, a wide variety of federal, state and local environmental laws and regulations relating to environmental and occupational health and safety matters (the "Regulations") have been and continue to be adopted and amended. By reason of the nature of the operations of ISP and its predecessor and certain of the substances that are, or have been used, produced or discharged by their plants or at other locations, ISP is affected by the Regulations. ISP has made capital expenditures of less than \$3.7 million in each of the last three years in order to comply with the

Regulations (which expenditures are included in additions to property, plant and equipment), and anticipates that aggregate capital expenditures relating to environmental compliance in 1994 and 1995 will be approximately \$3.5 million and \$3.9 million, respectively.

The Regulations deal with air and water emissions or discharges into the environment, as well as the generation, storage, treatment, transportation and disposal of solid waste, and the remediation of any releases of hazardous substances to the environment. ISP believes that its manufacturing facilities comply in all material respects with applicable Regulations, and, while it cannot predict whether more burdensome requirements will be adopted in the future, it believes that any potential liability for compliance with the Regulations will not materially affect its business, liquidity or financial position.

### **Employees**

At December 31, 1993, ISP employed approximately 2,400 people worldwide. As of December 31, 1993, approximately 750 employees in the United States and Canada were subject to 8 union contracts, which are effective in most cases for between two and four-year periods. During 1993, 4 labor contracts expired and were successfully renegotiated. One other contract, covering five employees, expired and was terminated in May 1993.

ISP has in effect various benefit plans, which include a non-qualified retirement plan for a group of executives, a capital accumulation plan for its salaried and certain hourly employees, a flexible benefit plan for its salaried employees, a retirement plan for certain of its hourly employees, and group insurance agreements providing life, accidental death, disability, hospital, surgical, medical and dental coverage. In addition, ISP has contracted with various health maintenance organizations to provide medical benefits. ISP and, in many cases, its employees contribute to the cost of these plans.

### **Item 2. *Properties***

The corporate headquarters and principal research and development laboratories of ISP are located at a 100-acre campus-like, office and research park owned by a subsidiary of ISP at 1361 Alps Road, Wayne, New Jersey 07470. The premises are subject to a first mortgage.

ISP's specialty derivative chemical products are manufactured at six manufacturing facilities in the United States and at the GAF-Hüls plant in Marl, Germany. ISP's mineral granule products are produced at three manufacturing facilities in the United States, each of which performs mining, milling, screening and coloring operations. ISP's filter products are manufactured at four plants outside of the United States and one in the United States. Advanced materials are manufactured at one plant in the United States.

The principal domestic and foreign real properties either owned by, or leased to, ISP are described below. Unless otherwise indicated, the properties are owned in fee. In addition to the principal facilities listed below, ISP maintains sales offices and warehouses in the United States and abroad, substantially all of which are in leased premises under relatively short-term leases.

<u>Location</u>	<u>Facility</u>	<u>Product Line</u>
<b>DOMESTIC</b>		
Alabama		
Huntsville .....	Plant	Advanced Materials
Kentucky		
Calvert City .....	Plant	Specialty Derivative Chemicals
Maryland		
Hagerstown .....	Research Center, Design Center, Sales Office	Mineral Products
Missouri		
Annapolis .....	Plant, Quarry	Mineral Products
New Jersey		
Belleville .....	Plant, Sales Office Research Center, Warehouse*	Specialty Derivative Chemicals
Bridgewater .....	Sales Office	Specialty Derivative Chemicals
Chatham .....	Plant, Sales Office, Research Center, Warehouse*	Specialty Derivative Chemicals
Wayne .....	Headquarters, Corporate Administrative Offices, Research Center	Specialty Derivative Chemicals, Filter Products and Advanced Materials
Ohio		
Columbus .....	Plant, Sales Office	Specialty Derivative Chemicals
Pennsylvania		
Blue Ridge Summit .....	Plant, Quarry	Mineral Products
Tennessee		
Memphis .....	Plant*, Warehouse*, Distribution Center*	Filter Products
Texas		
Seadrift .....	Plant	Specialty Derivative Chemicals
Texas City .....	Plant	Specialty Derivative Chemicals
Wisconsin		
Pembine .....	Plant, Quarry	Mineral Products
<b>INTERNATIONAL</b>		
Belgium		
Sint-Niklaas .....	Plant, Sales Office, Distribution Center	Specialty Derivative Chemicals and Filter Products

\* Leased Property

<u>Location</u>	<u>Facility</u>	<u>Product Line</u>
<b>INTERNATIONAL—(Continued)</b>		
<b>Brazil</b>		
Sao Paulo .....	Plant*, Sales Office*, Distribution Center*	Specialty Derivative Chemicals and Filter Products
<b>Canada</b>		
Mississauga, Ontario .....	Plant*, Sales Office*, Distribution Center*	Specialty Derivative Chemicals and Filter Products
<b>Great Britain</b>		
Guildford .....	European Headquarters*, Research Center*	Specialty Derivative Chemicals
<b>Singapore</b>		
Southpoint .....	Plant*, Sales Office*, Distribution Center*, Asia Pacific Headquarters*, Warehouse*	Specialty Derivative Chemicals and Filter Products
<b>Affiliate:</b>		
GAF-Hüls Chemie GmbH Marl, Germany .....	Plant, Sales Office	Specialty Derivative Chemicals

\* Leased Property

ISP believes that its plants and facilities, which are of varying ages and are of different construction types, have been satisfactorily maintained, are in good condition, are suitable for their respective operations and generally provide sufficient capacity to meet production requirements. Each plant has adequate transportation facilities for both raw materials and finished products. In 1993, ISP invested \$49.6 million in new plant, property and equipment.

### **Item 3. Legal Proceedings**

#### **Environmental Litigation**

ISP, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and similar state laws, in which recovery is sought for the cost of cleanup of contaminated waste disposal sites. A number of the Environmental Claims are in the early stages and others have been dormant for protracted periods.

At each site, ISP anticipates, although there can be no assurance, that liability will be apportioned among the companies found to be responsible for the presence of hazardous substances at the site. Although it is difficult to predict the ultimate resolution of these claims, based on ISP's evaluation of the financial responsibility of the parties involved and their insurers, the merits of the defenses of ISP and other parties and the nature and terms of cost sharing arrangements now in place among the potentially responsible parties, ISP estimates that its liability in respect of all Environmental Claims, as of December 31, 1993, will be approximately \$17.2 million. After a reduction for anticipated insurance recoveries (discussed below) of \$7 million, ISP estimates that its net liability will be approximately \$10.2 million.

Although ISP believes it is entitled to substantially full defense and indemnity under its insurance policies for all Environmental Claims, ISP's insurers have not affirmed a legal obligation under the policies to provide indemnity for the matters discussed above. Nevertheless, the insurers have agreed to reimburse ISP for a substantial portion of its



indemnity obligations in a number of these cases and ISP has also reached agreements with certain of its insurers regarding ISP's defense costs and other related expenses and, pursuant to these agreements, certain insurers are currently paying a portion of ISP's defense costs. After considering the relevant legal issues, prevailing commercial practice in the resolution of similar claims and the agreements discussed above, ISP believes that it is probable that it will receive the anticipated insurance recoveries, although there can be no assurance in this regard.

In the opinion of ISP's management, the environmental matters referred to herein will be resolved and amounts will be paid gradually over a period of years and, accordingly, the resolution of such matters should not be material to the business, liquidity or financial position of ISP. However, adverse decisions or events, particularly as to the merits of ISP's factual and legal defenses to liability and the financial responsibility of the other parties involved at each site, could cause ISP to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

In June 1989, ISP entered into a Consent Order with the New Jersey Department of Environmental Protection and Energy requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently \$7.5 million) to guarantee ISP's performance. The remediation required by the order encompasses the following: (1) the elimination of water-borne contaminant migration from the site at an estimated cost, as of December 31, 1993, of approximately \$5.7 million (\$1.1 million after anticipated insurance recoveries) and (2) the creation of a site development plan to deal with soil contamination. Although no assurances can be given and the site development plan has not been developed, ISP believes that the soil remediation requirements will be met through land use and access controls and, therefore, that the majority of the costs will be spent in connection with the site development plan. ISP believes that any remaining costs, such as that of long-term monitoring, will not be material.

The following is a list of proceedings involving environmental claims against ISP by governmental authorities other than those which ISP reasonably believes will result in monetary sanctions (exclusive of interest and costs) of less than \$100,000:

Pursuant to a Consent Order between the United States Environmental Protection Agency (the "EPA") and over 100 potentially responsible parties, including ISP, such parties have agreed to participate in the remediation of a contaminated waste disposal site in Carlstadt, New Jersey. The EPA is evaluating final remedies for the site. Total cleanup costs are unknown but ISP estimates, based on information currently available to it, that the insurance proceeds pursuant to the agreements described above will cover a substantial portion of ISP's share of such costs.

The Texas Water Commission ("TWC") has filed an amended administrative enforcement petition with respect to ISP's Texas City, Texas manufacturing facility seeking a civil penalty of \$601,200 for alleged violations of TWC financial assurance requirements, a failure to complete closure of regulated waste units in accordance with closure plan schedules and improper maintenance of two waste container storage areas. ISP is currently contesting the alleged violations and, at the request of TWC, trial of this matter has been postponed indefinitely. Although no assurance can be given, ISP believes that the ultimate civil penalty, if any, will be substantially lower than the amount sought.

#### **Asbestos Litigation Against GAF**

GAF has advised ISP that, as of December 31, 1993, GAF had been named as a defendant in approximately 53,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber, having resolved approximately 156,000 other lawsuits involving similar claims, and as a co-defendant in approximately 23 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises.

The reserve of GAF and G-I Holdings for asbestos bodily injury claims, as of December 31, 1993, was approximately \$311.1 million (net of estimated recoveries from products liability insurance policies of

approximately \$280 million and after having discounted certain liabilities), before related deferred tax benefits of approximately \$121 million. GAF and G-I Holdings have advised ISP that certain components of the asbestos-related liability have been reflected on a discounted basis in their financial statements, and that the aggregate undiscounted liability as of December 31, 1993, net of estimated recoveries from products liability insurance policies, was \$362.5 million.

GAF's and G-I Holdings' estimate of liability for asbestos claims is based on the Settlement described below being approved and on assumptions which relate, among other things, to the number of new cases filed, the cost of resolving (either by settlement or litigation or through the mechanism established by the Settlement) pending and future claims, the realization of related tax benefits, the favorable resolution of pending litigation against certain insurance companies and the amount of recoveries from various insurance companies.

On January 15, 1993, the members of the Center for Claims Resolution (the "CCR"), a non-profit organization of asbestos defendants including GAF, entered into a class-action settlement agreement (the "Settlement") to resolve all future asbestos bodily injury claims (other than claims of those persons who "opted out" of the class by January 24, 1994) against GAF and other members of the CCR. The Settlement, if approved and effective, would operate to limit GAF's liability for future asbestos claims to persons who do not "opt out" of the Settlement by placing a dollar limit on awards and a limit on the number of claims that will be paid to such persons in any one year over the first ten years of the Settlement.

GAF and G-I Holdings have advised ISP that they believe that their reserves, which reflect the discounting of a portion of the liabilities, adequately reflect their asbestos-related liabilities. GAF and G-I Holdings have also advised ISP that they anticipate that substantially all the payments in connection with GAF's and G-I Holdings' liability relating to asbestos bodily injury claims will be made by the end of the year 2004, and that, while they are unable to estimate the amount of liability with respect to claims to be resolved after such period, they believe that GAF will resolve, prior to that time, substantially all the court cases currently pending against it, and that it will further resolve substantially all the claims filed under the Settlement on a relatively current basis, so that the number of claims pending against GAF at the end of such period will be substantially diminished from current levels. GAF and G-I Holdings have advised ISP that, as a result of these and other factors, they believe that the resolution of any claims after such period will not have a material adverse effect on their respective financial positions or results of operations.

Neither ISP nor the assets or operations of ISP, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. ISP believes that it should have no legal responsibility for damages in connection with asbestos-related claims, but ISP cannot predict whether any such claims will be asserted against it or the outcome of any litigation related to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of common stock of ISP, and such enforcement could result in a change of control of ISP.

#### **SEC Consent**

On March 8, 1990, GAF, on behalf of itself and its subsidiaries, and a former GAF officer, without admitting or denying the allegations in a proposed complaint by the Securities and Exchange Commission relating to an alleged attempt to increase the price of Union Carbide Corporation common stock in October 1986, consented to the entry of judgments, consisting of a \$1.25 million fine and an injunction against violating certain sections of the Exchange Act, and rules thereunder.

#### **Other Litigation**

On January 20, 1993, Rhone-Poulenc Surfactants and Specialties, Inc. ("RP") filed an action against GCC in Delaware Chancery Court (New Castle County) seeking a declaratory judgment that RP could exercise its alleged

right to retire substantially all of GCC's interest in Rhone-Poulenc Surfactants and Specialties L.P. (the "Surfactants Partnership"). The Court dismissed RP's complaint, without prejudice, and indicated that GCC had a "bona fide claim" (although not finally established) against RP for "abusive transfer pricing" and that there was a substantial question as to RP's good faith in seeking to exercise its alleged right to retire GCC's interest in the Surfactants Partnership. Notwithstanding such ruling, RP notified GCC that it intended to retire GCC's interest in the Surfactants Partnership.

On June 4, 1993, GCC filed suit against RP in the 23rd Judicial District Court of Brazoria County, Texas, asserting claims against RP relating to the Surfactants Partnership for breaches of fiduciary duties, breach of contract, common law conspiracy, negligence and seeking damages and injunctive relief. On August 4, 1993, the court issued a temporary injunction enjoining RP from terminating GCC's interest in the Surfactants Partnership, and found that GCC had established both a prima facie case supporting its claims against RP for breach of fiduciary duty and a probable right on final trial to a permanent injunction. While RP has filed a notice of appeal from the temporary injunction and trial on the merits is scheduled for July 1, 1994, the litigation between the parties has been suspended on account of the pendency of settlement discussions between the parties and a bond in the amount of \$28.5 million posted by GCC in connection with the temporary injunction has been released. GCC has advised ISP that GCC expects to prevail in obtaining a permanent injunction if a settlement of this matter is not reached.

In connection with the creation of the Surfactants Partnership, ISP recorded a deferred tax liability in the amount of \$119 million, which amount is included in the consolidated balance sheet of G-I Holdings and has been increased to \$122.5 million as a result of the 1% increase in the federal corporate income tax rate enacted in August 1993. In certain circumstances, including if RP were to retire substantially all of GCC's interest in the Surfactants Partnership before February 12, 1995, GCC would be required to satisfy this liability (subject to reduction to reflect utilization of the tax attributes of the GAF consolidated group as discussed below). However, as a result of the temporary injunction, payment of this liability is not expected earlier than December 1994 under present circumstances and, if such liability were required to be satisfied, the GAF consolidated group presently projects that it would pay approximately \$65 million at such time after taking into account the utilization of net operating loss carryforwards and other favorable tax attributes. There can be no assurance that the GAF consolidated group will not ultimately be required to pay this tax liability as early as December 1994. G Industries has assumed, and G Industries and GAF have agreed to jointly and severally indemnify ISP against, such tax liability. ISP is a member of the same consolidated group as GCC and, subject to such indemnification, would be severally liable for any tax liability imposed in connection with the retirement of GCC's interest in the surfactants Partnership should GCC, G Industries and GAF be unable to satisfy such liability. GAF has advised ISP that, in the event the tax liability becomes payable, GAF believes that it will have access to sufficient funds at that time to satisfy this liability if so required. See Note 4 of Notes to Consolidated Financial Statements contained in the Annual Report.

ISP believes that the ultimate resolution of the dispute with RP will not have a material adverse effect on the financial position or results of operations of ISP.

#### **Item 4. *Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders in the fourth quarter of 1993.

## Executive Officers

The following table sets forth the name, age, position and other information with respect to the executive officers of ISP and the executive officers and directors of ISP Chemicals and ISP Technologies.

<u>Name and Position Held(1)</u>	<u>Age</u>	<u>Present Principal Occupation or Employment and Five-Year Employment History</u>
Samuel J. Heyman ..... Director, Chairman and Chief Executive Officer, International Specialty Products Inc.	55	Mr. Heyman has been a director and Chairman and Chief Executive Officer of ISP since its formation and Chief Executive Officer of ISP Chemicals and ISP Technologies since November 1991. Mr. Heyman has been Chairman and Chief Executive Officer of GAF, G Industries and certain of its subsidiaries since April 1989, prior to which he held the same position with GAF's predecessor (the "Predecessor Company") from December 1983 to April 1989. He has been Chairman of GCC and its predecessor since July 1984 and Chairman and a director of BMCA since its formation. He is also the Chief Executive Officer, Manager and General Partner of a number of closely held real estate development companies and partnerships whose investments include commercial real estate and a portfolio of publicly traded securities.
Carl R. Eckardt ..... President and Chief Operating Officer, International Specialty Products Inc.	63	Mr. Eckardt has been a director of ISP since its formation and has been President and Chief Operating Officer of ISP and Chief Operating Officer of ISP Chemicals and ISP Technologies since January 3, 1994. Mr. Eckardt was Executive Vice President, Corporate Development of ISP from its formation to January 2, 1994. Mr. Eckardt has been a director and Executive Vice President, Corporate Development of GAF since April 1989 and held the same position with the Predecessor Company from January 1987 to April 1989. Mr. Eckardt has been Executive Vice President, Corporate Development of G-I Holdings since March 1993. Mr. Eckardt was President of GCC and the Predecessor Company's chemicals division from 1985 to 1987. Mr. Eckardt was Senior Vice President—Worldwide Chemicals and Senior Vice President—International Chemicals of the Predecessor Company from 1982 to 1985 and 1981 to 1982, respectively. Mr. Eckardt joined the Predecessor Company in 1974.

<u>Name and Position Held(1)</u>	<u>Age</u>	<u>Present Principal Occupation or Employment and Five-Year Employment History</u>
Mark A. Buckstein ..... Executive Vice President, General Counsel and Secretary, International Specialty Products Inc.	54	Mr. Buckstein has been a director, Executive Vice President, General Counsel and Secretary of ISP, G-I Holdings, GAF, G Industries and certain of its subsidiaries, including ISP Chemicals and ISP Technologies, since August 1, 1993, and has held the same positions with BMCA since its formation. From July 1992 to April 1993, he was Executive Vice President of the American Arbitration Association. From February 1986 to June 1992, he was a director, Senior Vice President, External Affairs and General Counsel of Trans World Airlines, Inc. He was Special Professor of Law at Hofstra University Law School from 1981 through 1993 and since January 1994 has been Adjunct Professor of Law at Rutgers University School of Law.
James P. Rogers ..... Senior Vice President— Finance and Treasurer, International Specialty Products Inc.	42	Mr. Rogers has been Senior Vice President-Finance of ISP, ISP Chemicals and ISP Technologies and has been Senior Vice President, Chief Financial Officer of G-I Holdings, GAF and certain of its subsidiaries since November 1, 1993. Mr. Rogers has also served as Treasurer of G-I Holdings, ISP, ISP Technologies, ISP Chemicals, GAF and certain of its subsidiaries since March 1992 and was Vice President and Treasurer of such corporations from March 1992 to October 31, 1993. He has been a director and Senior Vice President and Treasurer of BMCA since its formation. From August 1987 to March 1992, Mr. Rogers was Treasurer of Amphenol Corporation, a manufacturer of electrical connectors.
James J. Conway ..... Senior Vice President and General Manager, Specialty Derivative Chemicals, International Specialty Products Inc.	50	Mr. Conway has been Senior Vice President and General Manager, Specialty Derivatives of ISP since January 1993. He has held the same position and has been a director of ISP Technologies since January 1993. From March 1991 to November 1992, he was President of the Specialty Products Group of Hoechst Celanese Corporation ("HCC"). From April 1990 to March 1991, Mr. Conway was Executive Vice President of the same business of HCC. From January 1989 to March 1991 he was Vice President and General Manager of HCC's Engineering Plastics Division of the Advanced Materials Group and from November 1986 to January 1989 he was General Manager of such division.

<u>Name and Position Held(1)</u>	<u>Age</u>	<u>Present Principal Occupation or Employment and Five-Year Employment History</u>
James J. Strupp ..... Senior Vice President— Human Resources, - International Specialty Products Inc.	50	Mr. Strupp has been Senior Vice President—Human Resources of ISP since May 1991 and Senior Vice President—Human Resources of ISP Chemicals and ISP Technologies since June 1991. From 1987 to May 1991 he was Executive Vice President and Partner with Bastion Industries. Mr. Strupp was Vice President —Human Resources of the Predecessor Company from 1984 to 1987.
Richard B. Olsen ..... Senior Vice President and Chief Financial Officer, International Specialty Products Inc.	47	Mr. Olsen has been Senior Vice President and Chief Financial Officer of ISP, ISP Chemicals and ISP Technologies since November 1993, prior to which he was Vice President—Finance and Purchasing of ISP, ISP Chemicals and ISP Technologies since June 1991. He was Vice President, Finance of GCC from April 1989 to November 1993 and held the same positions with the Predecessor Company from June 1986 to April 1989.

- (1) Under ISP's By-laws, each director and executive officer continues in office until ISP's next annual meeting of stockholders or until a successor is elected and qualified.

## PART II

### **Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters***

The information contained in the Annual Report under the heading "Market for Common Stock" is incorporated by reference herein.

### **Item 6. *Selected Financial Data***

The information contained in the Annual Report under the heading "Selected Financial Data" is incorporated by reference herein.

### **Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

The information contained in the Annual Report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operation" is incorporated by reference herein.

**Item 8. *Financial Statements and Supplementary Data***

The following financial statements contained in the Annual Report and the information contained in the Annual Report under the heading "Quarterly Financial Data" are incorporated by reference herein.

	<u>Annual Report Page Number</u>
Report of Independent Public Accountants .....	46
Consolidated Statements of Income for the three years ended December 31, 1993 .....	22
Consolidated Balance Sheets as of December 31, 1992 and 1993 .....	23
Consolidated Statements of Cash Flows for the three years ended December 31, 1993 .....	24-25
Consolidated Statements of Stockholders' Equity for the three years ended December 31, 1993 .....	26
Notes to Consolidated Financial Statements .....	27-45

**Item 9. *Disagreements on Accounting and Financial Disclosure***

None.

**PART III**

**Item 10. *Directors and Executive Officers of Registrant***

The Information relating to the directors of ISP, to be contained in the Proxy Statement under the heading "Election of Directors" is incorporated by reference herein. For information related to the Executive Officers of ISP, ISP Chemicals and ISP Technologies, see "Executive Officers" in Part I of this report.

Thomas C. Bohrer, former President and Chief Operating Officer of ISP, failed to file on a timely basis a Form 5 required by Section 16(a) of the Securities Exchange Act.

**Item 11. *Executive Compensation***

The information to be contained in the Proxy Statement under the headings "Compensation of Executive Officers of the Company" and "Election of Directors" is incorporated by reference herein.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management***

The information to be contained in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference herein.

**Item 13. *Certain Relationships and Related Transactions***

The information to be contained in the Proxy Statement under the captions "Election of Directors" and "Certain Transactions" is incorporated by reference herein.

## PART IV

### Item 14. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

The following documents are filed as part of this report:

#### (a)(1) *Financial Statements:*

Financial statements of ISP are incorporated by reference to ISP's Annual Report to Stockholders for the fiscal year ended December 31, 1993. See list on page 16 herein.

#### (a)(2) *Financial Statement Schedules:*

The following supplementary financial information is filed in this Form 10-K and should be read in conjunction with the financial statements in the Annual Report.

	<u>Page Number in this Form 10-K</u>
Report of Independent Public Accounts on Schedules for the years ended December 31, 1991, 1992 and 1993 .....	S-1
Consolidated Financial Statement Schedules:	
Schedule I — Marketable Securities—Other Investments .....	S-2
Schedule II — Amounts Receivable From Related Parties, Underwriters, Promoters, And Employees Other Than Related Parties .....	S-3
Schedule V — Property, Plant and Equipment .....	S-4
Schedule VI — Accumulated Depreciation of Property, Plant and Equipment .....	S-5
Schedule VIII — Valuation and Qualifying Accounts .....	S-6
Schedule IX — Short-Term Borrowings .....	S-7
Schedule X — Supplementary Income Statement Information .....	S-8

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto.

#### (a)(3) *Exhibits*

(a) The following documents are filed as part of this report:

- 3.1 — Certificate of Incorporation of ISP (incorporated by reference to Exhibit 3.1 to ISP's Registration Statement on Form S-1, registration number 33-40337 (the "Company Stock Registration Statement")).
- 3.2 — By-laws of ISP (incorporated by reference to Exhibit 3.2 to the Common Stock Registration Statement).
- 3.3 — Certificate of Incorporation of ISP Chemicals (incorporated by reference to Exhibit 3.3 to ISP's Registration Statement on Form S-1, registration number 33-44862 (the "9% Note Registration Statement")).
- 3.4 — By-laws of ISP Chemicals (incorporated by reference to Exhibit 3.4 to the 9% Note Registration Statement).



- 3.5 — Certificate of Incorporation of ISP Technologies (incorporated by reference to Exhibit 3.5 to the 9% Note Registration Statement).
- 3.6 — By-laws of ISP Technologies (incorporated by reference to Exhibit 3.6 to the 9% Note Registration Statement).
- 4 — Indenture, dated as of March 1, 1992, relating to ISP's 9% Senior Notes due March 1, 1999 (incorporated by reference to Exhibit 4 to the 9% Note Registration Statement).
- 10.1 — Credit Agreement, dated as of July 23, 1992 (incorporated by reference to Exhibit 10.1 of ISP's Form 10-Q for the quarter ended June 28, 1992).
- 10.2 — Amendment No. 1, dated as of October 15, 1992, to the Credit Agreement (incorporated by reference to Exhibit 10.2 to ISP's Form 10-K for the year ended December 31, 1992 (the "1992 10-K")).
- 10.3 — Amendment No. 2, dated as of December 23, 1992, to the Credit Agreement (incorporated by reference to Exhibit 10.3 of the 1992 10-K).
- 10.4 — Amendment No. 3, dated as of December 13, 1993, to the Credit Agreement.
- 10.5 — Management Agreement, dated as of March 3, 1992, among ISP, GAF, G-I Holdings, G Industries, GAF Building Materials and Broadcasting.
- 10.6 — Amendment No. 1, dated as of January 1, 1994, to the Management Agreement.
- 10.7 — Tax Sharing Agreement among ISP, ISP Chemicals, ISP Technologies the Subsidiary Guarantors, GAF and G Industries.
- 10.8 — Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to the Common Stock Registration Statement).\*
- 10.9 — Amended and Restated 1991 Incentive Plan for Key Employees. \*
- 10.10 — Agreement dated September 23, 1991, between ISP and Thomas C. Bohrer (incorporated by reference to Exhibit 10.16 to the 9% Note Registration Statement).\*
- 10.11 — Agreement, dated June 10, 1993, between ISP and Mark A. Buckstein (incorporated by reference to Exhibit 10.1 of ISP's 10-Q, for the quarter ended October 3, 1993).\*
- 10.12 — Agreement, dated July 30, 1993, between ISP and Carl R. Eckardt.\*
- 10.13 — Stock Appreciation Right Agreement, dated December 31, 1993, between GAF and Mark A. Buckstein.\*
- 10.14 — Stock Appreciation Right Agreement, dated January 20, 1994, between GAF and James P. Rogers. \*
- 10.15 — Stock Appreciation Right Agreement, dated January 20, 1994, between GAF and James J. Strupp. \*
- 10.16 — Contribution Agreement among ISP Chemicals, ISP Technologies and the Guarantors (incorporated by reference to Exhibit 10.17 of the 9% Registration Statement).
- 10.17 — Form of Maintenance Agreement between ISP and ISP Chemicals (incorporated by reference to Exhibit 10.18 to the 9% Note Registration Statement).
- 10.18 — Form of Assignment and Assumption Agreement between G Industries and ISP (incorporated by reference to Exhibit 10.19 of the 9% Note Registration Statement).

- 10.19 — Form of Assignment and Assumption Agreement among ISP, ISP Chemicals and ISP Technologies (incorporated by reference to Exhibit 10.20 of the 9% Note Registration Statement).
- 10.20 — Form of Intercompany Term Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.21 to the Senior Note Registration Statement).
- 10.21 — Form of Intercompany Term Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.22 to the Senior Note Registration Statement).
- 10.22 — Form of Intercompany Revolving Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.23 to the Senior Note Registration Statement).
- 10.23 — Form of Intercompany Revolving Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.24 to the Senior Note Registration Statement).
- 13.1 — Annual Report to Stockholders for the year ended December 31, 1993, which except for the portions thereof which are expressly incorporated by reference herein, is furnished for the information of the Commission and shall not be deemed filed.
- 21 — Subsidiaries of ISP and ISP Chemicals; ISP Technologies has no subsidiaries.
- 23.1 — Consent of Arthur Andersen & Co.
- 23.2 — Consent of Arthur Andersen & Co.

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\* Management and/or compensation plan or arrangement.

*(b) Reports on Form 8-K*

No reports on Form 8-K were filed in the fourth quarter of 1993.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### INTERNATIONAL SPECIALTY PRODUCTS INC.




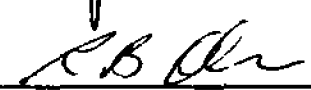
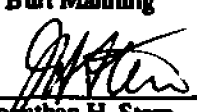
By



Mark A. Buckstein  
*Executive Vice President,  
General Counsel and Secretary; Director*

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 <hr/> Samuel J. Heyman	Chairman of the Board of Directors and Chief Executive Officer
 <hr/> Carl R. Eckardt	President and Chief Operating Officer; Director
 <hr/> Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 <hr/> Richard B. Olsen	Senior Vice President and Chief Financial Officer
<hr/> Harrison J. Goldin	Director
<hr/> Charles M. Diker	Director
<hr/> Sanford Kaplan	Director
<hr/> Burt Manning	Director
 <hr/> Jonathan H. Stern	Vice President and Controller (Principal Accounting Officer)

## SIGNATURES

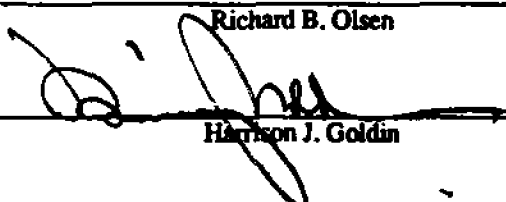
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL SPECIALTY  
PRODUCTS INC.

By Mark A. Buckstein  
*Executive Vice President,  
General Counsel and Secretary; Director*

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>Samuel J. Heyman</u>	Chairman of the Board of Directors and Chief Executive Officer
<u>Carl R. Eckardt</u>	President and Chief Operating Officer; Director
<u>Mark A. Buckstein</u>	Executive Vice President, General Counsel and Secretary; Director
<u>Richard B. Olsen</u>	Senior Vice President and Chief Financial Officer
 <u>Harrison J. Goldin</u>	Director
<u>Charles M. Diker</u>	Director
<u>Sanford Kaplan</u>	Director
<u>Burt Manning</u>	Director
<u>Jonathan H. Stern</u>	Vice President and Controller (Principal Accounting Officer)

## SIGNATURES


Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### INTERNATIONAL SPECIALTY PRODUCTS INC.

By Mark A. Buckstein  
*Executive Vice President,  
General Counsel and Secretary; Director*

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>Samuel J. Heyman</u>	Chairman of the Board of Directors and Chief Executive Officer
<u>Carl R. Eckardt</u>	President and Chief Operating Officer; Director
<u>Mark A. Buckstein</u>	Executive Vice President, General Counsel and Secretary; Director
<u>Richard B. Olsen</u>	Senior Vice President and Chief Financial Officer
<u>Harrison J. Goldin</u>	Director
<u></u> Charles M. Diker	Director
<u>Sanford Kaplan</u>	Director
<u>Burt Manning</u>	Director
<u>Jonathan H. Stern</u>	Vice President and Controller (Principal Accounting Officer)

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### INTERNATIONAL SPECIALTY PRODUCTS INC.

By Mark A. Buckstein  
*Executive Vice President,  
General Counsel and Secretary; Director*

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>Samuel J. Heyman</u>	Chairman of the Board of Directors and Chief Executive Officer
<u>Carl R. Eckardt</u>	President and Chief Operating Officer; Director
<u>Mark A. Buckstein</u>	Executive Vice President, General Counsel and Secretary; Director
<u>Richard B. Olsen</u>	Senior Vice President and Chief Financial Officer
<u>Harrison J. Goldin</u>	Director
<u>Charles M. Diker</u>	Director
<u>Sanford Kaplan</u>	Director
<u>Burt Manning</u>	Director
<u>Jonathan H. Stern</u>	Vice President and Controller (Principal Accounting Officer)

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### INTERNATIONAL SPECIALTY PRODUCTS INC.

By Mark A. Buckstein  
*Executive Vice President,  
General Counsel and Secretary; Director*

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>Samuel J. Heyman</u>	Chairman of the Board of Directors and Chief Executive Officer
<u>Carl R. Eckardt</u>	President and Chief Operating Officer; Director
<u>Mark A. Buckstein</u>	Executive Vice President, General Counsel and Secretary; Director
<u>Richard B. Olsen</u>	Senior Vice President and Chief Financial Officer
<u>Harrison J. Goldin</u>	Director
<u>Charles M. Diker</u>	Director
<u>Sanford Kaplan</u>	Director
<u>Burt Manning</u>	Director
<u>Jonathan H. Stern</u>	Vice President and Controller (Principal Accounting Officer)

## SIGNATURES



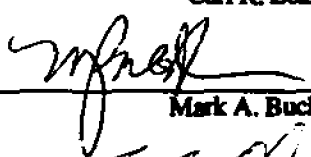


Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP CHEMICALS INC.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.


<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	Chief Operating Officer
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer



## SIGNATURES




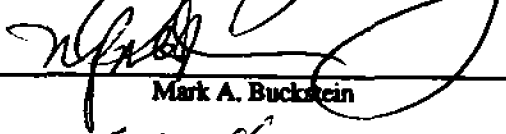


Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP TECHNOLOGIES INC.

By   
 Mark A. Buckstein  
*Executive Vice President,  
 General Counsel and Secretary; Director*

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	Chief Operating Officer
 _____ James J. Conway	President and Director
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES




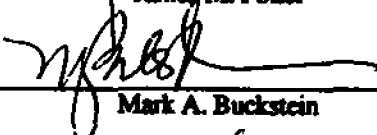


Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP (PUERTO RICO) INC.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994


Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	Chief Operating Officer
 _____ James M. Potter	President and Director
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES



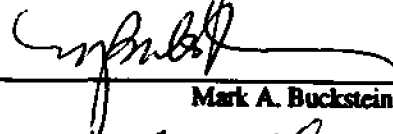
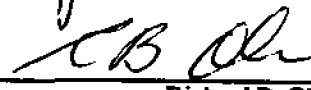

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP ENVIRONMENTAL SERVICES INC.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994

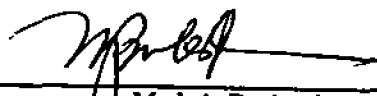
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	President and Chief Operating Officer; Director
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES






Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP FILTERS INC.

By   
 \_\_\_\_\_  
 Mark A. Buckstein  
*Executive Vice President,  
 General Counsel and Secretary; Director*

Date: March 30, 1994


Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	Chief Operating Officer
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES







Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP GLOBAL TECHNOLOGIES INC.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994


Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	Chief Operating Officer
 _____ William H. Baum	President and Director
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES


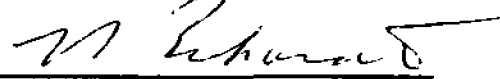


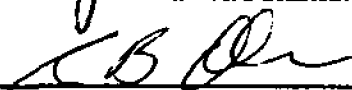

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP INTERNATIONAL CORP.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994


Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	Chief Operating Officer
 _____ William H. Baum	President and Director
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES



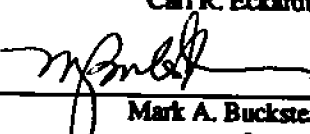


Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP INVESTMENTS INC.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	Chief Operating Officer
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES



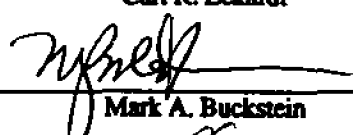


Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP MANAGEMENT COMPANY, INC.

By   
 Mark A. Buckstein  
 Executive Vice President,  
 General Counsel and Secretary; Director

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u></u> Samuel J. Heyman	Chief Executive Officer
<u></u> Carl R. Eckardt	President and Chief Operating Officer; Director
<u></u> Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
<u></u> Richard B. Olsen	Senior Vice President and Chief Financial Officer
<u></u> Jonathan H. Stern	Vice President and Controller (Principal Accounting Officer)




## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.







ISP MINERAL PRODUCTS INC.

By

  
 Mark A. Buckstein  
*Executive Vice President,  
 General Counsel and Secretary; Director*

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 Samuel J. Heyman	Chief Executive Officer
 Carl R. Eckardt	Chief Operating Officer
T. H. King 	President and Director
 Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 Richard B. Olsen	Senior Vice President and Chief Financial Officer
 Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP MINERAL PRODUCTS INC.

By Mark A. Buckstein  
*Executive Vice President,  
General Counsel and Secretary; Director*

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>Samuel J. Heyman</u>	Chief Executive Officer
<u>Carl R. Eckardt</u>	Chief Operating Officer
<u>T. H. King</u>	President and Director
<u>Mark A. Buckstein</u>	Executive Vice President, General Counsel and Secretary; Director
<u>Richard B. Olsen</u>	Senior Vice President and Chief Financial Officer
<u>Jonathan H. Stern</u>	Principal Accounting Officer

## SIGNATURES


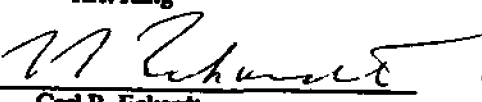


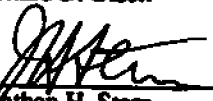
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP MINERALS INC.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
_____ T.H. King	President and Director
 _____ Carl R. Eckardt	Chief Operating Officer
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP MINERALS INC.

By Mark A. Buckstein  
*Executive Vice President,  
General Counsel and Secretary; Director*

Date: March 30, 1994

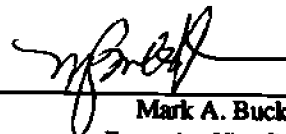
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>Samuel J. Heyman</u>	Chief Executive Officer
<u>T.H. King</u>	President and Director
<u>Carl R. Eckardt</u>	Chief Operating Officer
<u>Mark A. Buckstein</u>	Executive Vice President, General Counsel and Secretary; Director
<u>Richard B. Olsen</u>	Senior Vice President and Chief Financial Officer
<u>Jonathan H. Stern</u>	Principal Accounting Officer

## SIGNATURES



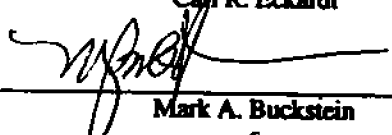

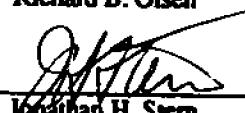
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP REAL ESTATE COMPANY, INC.

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994


Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	Chief Operating Officer
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES


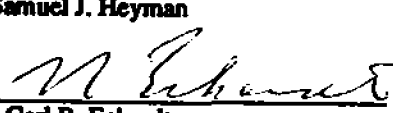


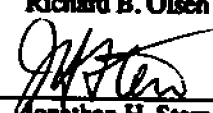
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### ISP REALTY CORPORATION

By   
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

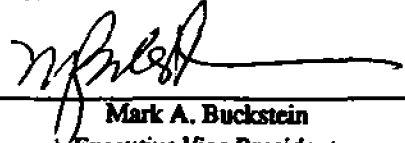
<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	President and Chief Operating Officer
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.






VERONA INC.

By

  
Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	Chief Operating Officer
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### BLUEHALL CORPORATION





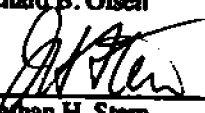
By



Mark A. Buckstein  
Executive Vice President,  
General Counsel and Secretary; Director

Date: March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994, by the following persons in the capacities indicated.

<u>Signature</u>	<u>Title</u>
 _____ Samuel J. Heyman	Chief Executive Officer
 _____ Carl R. Eckardt	President and Chief Operating Officer
 _____ Mark A. Buckstein	Executive Vice President, General Counsel and Secretary; Director
 _____ Richard B. Olsen	Senior Vice President and Chief Financial Officer
 _____ Jonathan H. Stern	Principal Accounting Officer



# ARTHUR ANDERSEN & CO.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULES

TO INTERNATIONAL SPECIALTY PRODUCTS INC.:

We have audited in accordance with generally accepted auditing standards, the financial statements included in International Specialty Products Inc.'s annual report to stockholders and incorporated by reference in this Form 10-K, and have issued our report thereon dated March 8, 1994. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedules listed in the index on page 17 of this Form 10-K are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

  
ARTHUR ANDERSEN & CO.

Roseland, New Jersey  
March 8, 1994

S-1

## SCHEDULE I

**INTERNATIONAL SPECIALTY PRODUCTS INC.**  
**MARKETABLE SECURITIES—OTHER INVESTMENTS**  
**AS OF DECEMBER 31, 1993**

(Dollars in Thousands)

<u>TITLE OF ISSUE</u>	<u>Principal Amount or Number of Shares</u>	<u>Cost (Balance Sheet Carrying Amount)</u>	<u>Market Value at December 31, 1993</u>
<b>SHORT-TERM INVESTMENTS</b>			
Securities:			
Common Stock*:			
Paramount Communications .....	585,025	\$46,151	\$45,486
Utilities (4) .....		13,492	13,911
All other (11) .....		11,970	12,662
Total .....		71,613	72,059
Preferred Stock (1)* .....		151	160
Total Short-term Investments .....		<u>\$71,764</u>	<u>\$72,219</u>

\*Figures in parentheses indicate number of issuers included in the group.

SCHEDULE II

INTERNATIONAL SPECIALTY PRODUCTS INC.  
AMOUNTS RECEIVABLE FROM RELATED PARTIES, UNDERWRITERS, PROMOTERS,  
AND EMPLOYEES OTHER THAN RELATED PARTIES

Year Ended December 31, 1993

(Thousands)

Name of Debtor	Balance January 1, 1993	Additions	Amounts Collected	Amounts Written Off	Balance December 31, 1993	
					Current	Non-Current
Alan Z. Senter .....	\$775,000	\$ —	\$775,000(a)	\$ —	\$ —	\$ —

Year Ended December 31, 1992

(Thousands)

Name of Debtor	Balance January 1, 1992	Additions	Amounts Collected	Amounts Written Off	Balance December 31, 1992	
					Current	Non-Current
Alan Z. Senter .....	\$ —	\$775,000(a)	\$ —	\$ —	\$775,000	\$ —

Note:

- (a) On December 11, 1992, the Company loaned Mr. Senter \$775,000 for the purchase of a home, payable on demand, without interest, but in no event later than the earlier of 30 days from the date of closing on the sale of his then-current residence or June 11, 1993. The loan was repaid on May 27, 1993.

## SCHEDULE V

## INTERNATIONAL SPECIALTY PRODUCTS INC.

## PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1993  
(Thousands)

Classification	Balance January 1, 1993	Additions at Cost	Retirements	Other(b)	Balance December 31, 1993
Land .....	\$ 53,700	\$ 66	\$ —	\$ 990	\$ 54,756
Land improvements .....	11,626	1,226	87	(27)	12,738
Buildings and fixtures .....	71,870	1,817	170	530	74,047
Machinery and equipment .....	342,176	27,080	3,553	4,739	370,442
Construction in progress .....	50,226	19,419(a)	—	(188)	69,457
	<u>\$529,598</u>	<u>\$49,608</u>	<u>\$3,810</u>	<u>\$6,044</u>	<u>\$581,440</u>

Year Ended December 31, 1992  
(Thousands)

Classification	Balance January 1, 1992	Additions at Cost	Retirements	Other(c)	Balance December 31, 1992
Land .....	\$ 51,462	\$ 42	\$ —	\$ 2,196	\$ 53,700
Land improvements .....	12,799	679	43	(1,809)	11,626
Buildings and fixtures .....	68,558	3,228	581	665	71,870
Machinery and equipment .....	312,633	25,466	5,576	9,653	342,176
Construction in progress .....	26,054	23,200(a)	2,132	3,104	50,226
	<u>\$471,506</u>	<u>\$52,615</u>	<u>\$8,332</u>	<u>\$13,809</u>	<u>\$529,598</u>

Year Ended December 31, 1991  
(Thousands)

Classification	Balance January 1, 1991	Additions at Cost	Retirements	Other	Balance December 31, 1991
Land .....	\$ 51,462	\$ —	\$ —	\$ —	\$ 51,462
Land improvements .....	12,293	487	1	20	12,799
Buildings and fixtures .....	66,278	2,315	82	47	68,558
Machinery and equipment .....	288,472	25,611	1,096	(354)	312,633
Construction in progress .....	20,102	6,009(a)	—	(57)	26,054
	<u>\$438,607</u>	<u>\$34,422</u>	<u>\$1,179</u>	<u>\$ (344)</u>	<u>\$471,506</u>

## Notes:

- (a) Denotes net change during the period.  
 (b) Includes \$7.0 million related to the acquisition of the MTM fine chemicals business and a (\$.8) million effect of foreign exchange translation.  
 (c) Includes \$8.3 million related to the acquisition of the Van Dyk personal care business.

The ranges of annual depreciation rates generally were as follows (applied principally on the straight-line basis):

Land improvements .....	2½-33⅓%
Buildings and fixtures .....	2½-33⅓%
Machinery and equipment .....	5 -33⅓%

SCHEDULE VI

INTERNATIONAL SPECIALTY PRODUCTS INC.  
ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1993  
(Thousands)

Classification	Balance January 1, 1993	Additions Charged to Costs and Expenses	Retirements	Other	Balance December 31, 1993
Land improvements .....	\$ 1,810	\$ 680	\$ 87	\$ (14)	\$ 2,389
Buildings and fixtures .....	10,993	3,286	31	(28)	14,220
Machinery and equipment .....	64,723	24,771	2,490	(687)	86,317
	<u>\$77,526</u>	<u>\$28,737</u>	<u>\$2,608</u>	<u>\$(729)</u>	<u>\$102,926</u>

Year Ended December 31, 1992  
(Thousands)

Classification	Balance January 1, 1992	Additions Charged to Costs and Expenses	Retirements	Other	Balance December 31, 1992
Land improvements .....	\$ 1,294	\$ 544	\$ 28	\$ —	\$ 1,810
Buildings and fixtures .....	8,102	2,759	405	537	10,993
Machinery and equipment .....	46,780	22,307	3,728	(636)	64,723
	<u>\$56,176</u>	<u>\$25,610</u>	<u>\$4,161</u>	<u>\$ (99)</u>	<u>\$ 77,526</u>

Year Ended December 31, 1991  
(Thousands)

Classification	Balance January 1, 1991	Additions Charged to Costs and Expenses	Retirements	Other	Balance December 31, 1991
Land improvements .....	\$ 794	\$ 501	\$ 1	\$ —	\$ 1,294
Buildings and fixtures .....	5,100	3,068	79	13	8,102
Machinery and equipment .....	28,555	19,678	1,122	(331)	46,780
	<u>\$34,449</u>	<u>\$23,247</u>	<u>\$1,202</u>	<u>\$(318)</u>	<u>\$ 56,176</u>

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**SCHEDULE VIII**

**INTERNATIONAL SPECIALTY PRODUCTS INC.  
VALUATION AND QUALIFYING ACCOUNTS**

**Year Ended December 31, 1993  
(Thousands)**

<u>Description</u>	<u>Balance January 1, 1993</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1993</u>
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts . . . . .	\$2,105	\$ 392	\$ 184(a)	\$2,313
Reserve for inventory market valuation . . . .	5,872	5,142	2,023	8,991

**Year Ended December 31, 1992  
(Thousands)**

<u>Description</u>	<u>Balance January 1, 1992</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1992</u>
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts . . . . .	\$2,221	\$ 311	\$ 427(a)	\$2,105
Reserve for inventory market valuation . . . .	3,389	3,748	1,265	5,872

**Year Ended December 31, 1991  
(Thousands)**

<u>Description</u>	<u>Balance January 1, 1991</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance December 31, 1991</u>
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts . . . . .	\$2,433	\$ 208	\$ 420(a)	\$2,221
Reserve for inventory market valuation . . . .	5,046	1,752	3,409	3,389

Note:

(a) Represents write-offs of uncollectible accounts net of recoveries.

## SCHEDULE IX

## INTERNATIONAL SPECIALTY PRODUCTS INC.

## SHORT-TERM BORROWINGS

Year Ended December 31, 1993

(Dollars in Thousands)

Category	At December 31, 1993		For the Year 1993		
	Balance Outstanding	Weighted Average Interest Rate	Maximum Month-end Amount Outstanding	Average Month-end Amount Outstanding	Weighted Average Month-end Interest Rate
Bank borrowings .....	\$ 117	8.3%	\$ 2,520	\$ 805	7.1%
Stock margin borrowings .....	12,731	2.5%	26,000	10,037	3.2%
Borrowings from GAF-Hüls joint venture ....	—	—	10,683	9,432	7.6%
Loans from related party .....	66,787	3.6%	66,787	32,929	4.2%

Year Ended December 31, 1992

(Dollars in Thousands)

Category	At December 31, 1992		For the Year 1992		
	Balance Outstanding	Weighted Average Interest Rate	Maximum Month-end Amount Outstanding	Average Month-end Amount Outstanding	Weighted Average Month-end Interest Rate
Bank borrowings .....	\$ 2,211	5.6%	\$ 2,211	\$ 244	7.5%
Borrowings from GAF-Hüls joint venture ....	—	—	13,187	9,077	9.5%
Loans from related party .....	20,470	5.5%	41,609	24,467	6.3%

Year Ended December 31, 1991

(Dollars in Thousands)

Category	At December 31, 1991		For the Year 1991		
	Balance Outstanding	Weighted Average Interest Rate	Maximum Month-end Amount Outstanding	Average Month-end Amount Outstanding	Weighted Average Month-end Interest Rate
Bank borrowings .....	\$105	10.0%	\$10,373	\$3,108	10.0%
Borrowings from GAF-Hüls joint venture ....	—	—	10,819	2,558	9.3%
Loans from related parties .....	—	—	20,978	7,048	9.5%

## Note:

Bank borrowings represent borrowings by the Company's foreign subsidiaries under short-term lines of credit which expire on various dates, but are generally renewable. Borrowings under the short-term lines of credit generally bear interest at or near the prevailing market rates in the individual countries. At December 31, 1993, the Company's foreign subsidiaries had unused short-term lines of credit aggregating \$24.9 million.

**SCHEDULE X**

**INTERNATIONAL SPECIALTY PRODUCTS INC.  
SUPPLEMENTARY INCOME STATEMENT INFORMATION**

<i>Item:</i>	<u>Charged to Costs and Expenses</u>		
	<u>Year Ended December 31,</u>		
	<u>1993</u>	<u>1992</u>	<u>1991</u>
	(Thousands)		
Maintenance and repairs .....	\$33,256	\$36,717	\$34,281
Rental expense—operating leases .....	6,963	6,046	5,291



# EXHIBIT INDEX

<u>Exhibits</u>	<u>Description</u>	<u>Page No.</u>
3.1	— Certificate of Incorporation of ISP (incorporated by reference to Exhibit 3.1 to ISP's Registration Statement on Form S-1, registration number 33-40337 (the "Company Stock Registration Statement")).	
3.2	— By-laws of ISP (incorporated by reference to Exhibit 3.2 to the Common Stock Registration Statement).	
3.3	— Certificate of Incorporation of ISP Chemicals (incorporated by reference to Exhibit 3.3 to ISP's Registration Statement on Form S-1, registration number 33-44862 (the "9% Note Registration Statement")).	
3.4	— By-laws of ISP Chemicals (incorporated by reference to Exhibit 3.4 to the 9% Note Registration Statement).	
3.5	— Certificate of Incorporation of ISP Technologies (incorporated by reference to Exhibit 3.5 to the 9% Note Registration Statement).	
3.6	— By-laws of ISP Technologies (incorporated by reference to Exhibit 3.6 to the 9% Note Registration Statement).	
4	— Indenture, dated as of March 1, 1992, relating to ISP's 9% Senior Notes due March 1, 1999 (incorporated by reference to Exhibit 4 to the 9% Note Registration Statement).	
10.1	— Credit Agreement, dated as of July 23, 1992 (incorporated by reference to Exhibit 10.1 of ISP's Form 10-Q for the quarter ended June 28, 1992).	
10.2	— Amendment No. 1, dated as of October 15, 1992, to the Credit Agreement (incorporated by reference to Exhibit 10.2 to ISP's Form 10-K for the year ended December 31, 1992 (the "1992 10-K")).	
10.3	— Amendment No. 2, dated as of December 23, 1992, to the Credit Agreement (incorporated by reference to Exhibit 10.3 of the 1992 10-K).	
10.4	— Amendment No. 3, dated as of December 13, 1993, to the Credit Agreement.	56
10.5	— Management Agreement, dated as of March 3, 1992, among ISP, GAF, G-I Holdings, G Industries, GAF Building Materials and Broadcasting.	83
10.6	— Amendment No. 1, dated as of January 1, 1994, to the Management Agreement.	93
10.7	— Tax Sharing Agreement among ISP, ISP Chemicals, ISP Technologies the Subsidiary Guarantors, GAF and G Industries.	96
10.8	— Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to the Common Stock Registration Statement).*	
10.9	— Amended and Restated 1991 Incentive Plan for Key Employees. *	117
10.10	— Agreement dated September 23, 1991, between ISP and Thomas C. Bohrer (incorporated by reference to Exhibit 10.16 to the 9% Note Registration Statement).*	
10.11	— Agreement, dated June 10, 1993, between ISP and Mark A. Buckstein (incorporated by reference to Exhibit 10.1 of ISP's 10-Q, for the quarter ended October 3, 1993).*	

<u>Exhibits</u>	<u>Description</u>	<u>Page No.</u>
10.12—	Agreement, dated July 30, 1993, between ISP and Carl R. Eckardt.*	139
10.13—	Stock Appreciation Right Agreement, dated December 31, 1993, between GAF and Mark A. Buckstein.*	142
10.14—	Stock Appreciation Right Agreement, dated January 20, 1994, between GAF and James P. Rogers.*	150
10.15—	Stock Appreciation Right Agreement, dated January 20, 1994, between GAF and James J. Strupp.*	158
10.16—	Contribution Agreement among ISP Chemicals, ISP Technologies and the Guarantors (incorporated by reference to Exhibit 10.17 of the 9% Registration Statement).	
10.17—	Form of Maintenance Agreement between ISP and ISP Chemicals (incorporated by reference to Exhibit 10.18 to the 9% Note Registration Statement).	
10.18—	Form of Assignment and Assumption Agreement between G Industries and ISP (incorporated by reference to Exhibit 10.19 of the 9% Note Registration Statement).	
10.19—	Form of Assignment and Assumption Agreement among ISP, ISP Chemicals and ISP Technologies (incorporated by reference to Exhibit 10.20 of the 9% Note Registration Statement).	
10.20—	Form of Intercompany Term Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.21 to the Senior Note Registration Statement).	
10.21—	Form of Intercompany Term Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.22 to the Senior Note Registration Statement).	
10.22—	Form of Intercompany Revolving Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.23 to the Senior Note Registration Statement).	
10.23—	Form of Intercompany Revolving Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.24 to the Senior Note Registration Statement).	
13.1 —	Annual Report to Stockholders for the year ended December 31, 1993, which except for the portions thereof which are expressly incorporated by reference herein, is furnished for the information of the Commission and shall not be deemed filed.	166
21 —	Subsidiaries of ISP and ISP Chemicals; ISP Technologies has no subsidiaries.	219
23.1 —	Consent of Arthur Andersen & Co.	221
23.2 —	Consent of Arthur Andersen & Co.	223

\* Management and/or compensation plan or arrangement.

**EXHIBIT 10.4**

AMENDMENT NO. 3

AMENDMENT NO. 3 dated as of December 13, 1993, among ISP CHEMICALS INC., a Delaware corporation (together with its successors and permitted assigns, "ISP Chemicals"); ISP TECHNOLOGIES INC., a Delaware corporation (together with its successors and permitted assigns, "ISP Technologies"; ISP Technologies and ISP Chemicals are referred to herein collectively as the "Borrowers" and individually as a "Borrower"; INTERNATIONAL SPECIALTY PRODUCTS INC. (together with its successors and permitted assigns, "ISP"); each of the Subsidiaries of ISP identified under the caption "SUBSIDIARY GUARANTORS" on the signature pages hereto (each such Subsidiary, together with its successors and permitted assigns, being referred to herein collectively as the "Subsidiary Guarantors" and individually as a "Subsidiary Guarantor"; the financial institutions listed on the signature pages hereof (each, together with its successors and permitted assigns, a "Bank"); and THE CHASE MANHATTAN BANK (NATIONAL ASSOCIATION), acting as administrative agent in the manner and to the extent described in Section 11 of the Credit Agreement referred to below (in such capacity, together with its successors in such capacity, the "Agent").

The Borrowers, ISP, the Subsidiary Guarantors, the Banks and the Agent are parties to a Credit Agreement dated as of July 23, 1992, as amended by Amendment No. 1 dated as of October 15, 1992 and Amendment No. 2 dated as of December 23, 1992 (as so amended and in effect on the date hereof, the "Credit Agreement"), providing, subject to the terms and conditions thereof, for extensions of credit (by making of loans and issuing letters of credit) to be made by said Banks to or for account of the Borrowers in an aggregate principal or face amount not exceeding \$400,000,000. The Borrowers, ISP, the Subsidiary Guarantors, the Banks and the Agent wish to amend the Credit Agreement in certain respects, and accordingly, the parties hereto hereby agree as follows:

Section 1. Definitions. Except as otherwise defined in this Amendment No. 3, terms defined in the Credit Agreement and not otherwise defined herein are used herein as defined therein.

Section 2. Amendments. Subject to the satisfaction of the conditions precedent specified in Section 4 below, but effective as of the date hereof, the Credit Agreement shall be amended as follows:

A. The definition of "EBITDA" in Section 1.01 of the Credit Agreement is hereby amended by adding, at the end thereof, the following:

Amendment No. 3 to Credit Agreement

500516

"If at any time during such period a member of the ISP Consolidated Group shall have sold any Business or made an acquisition (whether by merger or otherwise) of a Business, EBITDA for such period shall be calculated after giving pro forma effect to such sale or acquisition as if such sale or acquisition occurred on the first day of such period. For purposes of this definition, 'Business' shall mean (i) all or substantially all of the assets of a Person related to the operation of a line of business by such Person, including, without limitation, all or substantially all assets and other properties that are necessary or useful in the operation of that line of business, or (ii) all of the capital stock of a Person which owns a Business."

B. The definition of "Indebtedness" in Section 1.01 of the Credit Agreement is hereby amended to read in its entirety as follows:

"Indebtedness" shall mean, with respect to any Person, without duplication:

(a) all obligations of such Person for borrowed money or evidenced by bonds, debentures, notes or similar instruments;

(b) all obligations of such Person for the deferred purchase price of property or services, except trade accounts payable (other than for borrowed money) arising in the ordinary course of business which are not overdue by more than 90 days;

(c) all Capital Lease Obligations of such Person;

(d) all Indebtedness of others secured by a Lien on any Property of such Person (whether or not such Indebtedness has been assumed by such Person) or Guaranteed by such Person (whether or not any such Guarantee is limited in amount or is a limited recourse obligation);

(e) any Guarantee of the performance of any obligation of or completion of any project by any other Person; and

(f) all obligations of such Person, contingent or otherwise, in respect of any letters of credit or bankers' acceptances;

provided that Indebtedness shall not include obligations in respect of (i) Hedge Agreements, (ii) Take-or-Pay Agreements or (iii) the honoring by a Bank of a check, draft or similar

Amendment No. 3 to Credit Agreement

instrument, wire transfer or electronic transfer of funds, drawn or debited against insufficient funds in the ordinary course of business so long as, in the case of this clause (iii), such obligations are extinguished within three Business Days after their incurrence.

C. The definition of "Interest Expense" in Section 1.01 of the Credit Agreement is hereby amended by adding, at the end thereof, the following:

"If at any time during such period a member of the ISP Consolidated Group shall have sold any Business, such sale shall, for purposes of calculating Interest Expense, be deemed to have occurred on the first day of such period, and Interest Expense for such period shall be reduced:

(1) by the amount of Interest Expense for such period attributable to Indebtedness directly relating to such Business that is repaid with proceeds from such sale, is otherwise discharged in connection with such sale, or is assumed by the purchaser in connection therewith (in each case so long as no member of the ISP Consolidated Group remains liable for such Indebtedness) during such period; and

(2) by an amount equal to the amount of interest that would have accrued during such period on Loans outstanding under this Agreement in an amount equal to the aggregate amount of cash and cash equivalents received in connection with such sale (net of the aggregate amount of actual selling expenses incurred by the ISP Consolidated Group in connection with such sale and net of taxes paid or estimated to be payable in cash by the ISP Consolidated Group in connection with such sale) (or, if a senior financial officer of the Borrowers can demonstrate to the reasonable satisfaction of the Majority Banks that a rate of interest different from that provided under this Agreement should be used for such purpose, such different interest rate);

If at any time during such period a member of the ISP Consolidated Group shall have made an acquisition (whether by merger or otherwise) of a Business, such acquisition shall, for purposes of calculating Interest Expense, be deemed to have occurred on the first day of such period, and Interest Expense for such period shall be calculated as if (x) the aggregate purchase price for such acquisition were financed with Indebtedness, and (y) the interest rates applicable to such Indebtedness were, throughout such period, equal to the interest rates applicable to Loans made

Amendment No. 3 to Credit Agreement

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from time to time under this Agreement throughout such period (or, if a senior financial officer of the Borrowers can demonstrate to the reasonable satisfaction of the Majority Banks that a different interest rate should be used for such purpose, such different interest rate). For purposes of this definition, 'Business' shall mean (i) all or substantially all of the assets of a Person related to the operation of a line of business by such Person, including, without limitation, all or substantially all assets and other properties that are necessary or useful in the operation of that line of business, or (ii) all of the capital stock of a Person which owns a Business."

D. The Credit Agreement is hereby amended by deleting the last sentence of Section 2.03(b).

E. Section 9.06 of the Credit Agreement is hereby amended by deleting clause (x) in the penultimate sentence thereof and substituting the following therefor:

"(x) any Guarantee in respect of the Senior Discount Notes due 1998 of G-I Holdings, or any refinancing thereof, or".

F. Section 9.07 of the Credit Agreement is hereby amended by deleting clause (a) thereof and substituting the following therefor:

"(a) advances to Affiliates of ISP due either on demand or not more than 13 months after the date of such advance, Letters of Credit issued for the benefit of Affiliates of ISP pursuant to Section 2.04, and Guarantees of Indebtedness or other liabilities of Affiliates, but only so long as, after giving effect to such advance, issuance or Guarantee, the aggregate principal amount of all such advances, together with the aggregate amount of all related Letter of Credit Liabilities and the maximum amount of all such Indebtedness and liabilities so guaranteed, on such date does not exceed \$50,000,000;"

G. Section 9.07(b) of the Credit Agreement is hereby amended to read in its entirety as follows:

"(b) Investments in Designated Subsidiaries (including, without limitation, Investments relating to project financings involving such Subsidiaries), so long as, as at the time of each such Investment and after giving effect thereto, the aggregate book value of such Investment (determined as of the date on which such Investment is made) (minus, in the case of any such Investment consisting of the contribution of a Newly Acquired Asset, the amount of any

Amendment No. 3 to Credit Agreement

dividend or distribution paid on the date of such contribution to a member of the ISP Consolidated Group by the Designated Subsidiary to which such asset is contributed), together with the book value of all other Investments permitted under clause (a) above and this clause (b) (in the case of each such other Investment, determined as of the date on which such Investment was made) (minus the amount of any return of capital by a Designated Subsidiary to a member of the ISP Consolidated Group since the date the Investment in such Designated Subsidiary was made), does not exceed 20% of the Adjusted Net Worth as of the end of the fiscal quarter of the ISP Consolidated Group immediately preceding such date;"

H. Section 9.12 of the Credit Agreement is hereby amended to read in its entirety as follows:

"9.12 Leverage Ratio. (a) ISP will not, on any date on or after September 30, 1992 and on or prior to December 30, 1993, permit the ratio of

(i) Total Consolidated Indebtedness as of such date, to

(ii) (A) 4/3 of EBITDA for the period of three consecutive fiscal quarters of the ISP Consolidated Group ending on or most recently ended prior to such date, for each such date occurring before December 31, 1992, or

(B) EBITDA for the period of four consecutive fiscal quarters of the ISP Consolidated Group ending on or most recently ended prior to such date, for each such date occurring on or after December 31, 1992,

to be more than 3.75 to 1.

(b) ISP will not permit the ratio of

(i) Total Consolidated Indebtedness as of such date, to

(ii) the sum of (A) Adjusted Net Worth as of such date plus (B) Total Consolidated Indebtedness as of such date

to be more than (x) 0.55 to 1.00 on any date on or after December 31, 1993 and on or prior to December 31, 1994, and (y) 0.50 to 1.00 on any date after December 31, 1994."

Amendment No. 3 to Credit Agreement



**Section 3. Representations and Warranties.** Each of ISP and the Borrowers represents and warrants to the Banks that:

(i) the representations and warranties set forth in Section 8 of the Credit Agreement are true and complete on the date hereof as if made on and as of the date hereof (or, if any such representation or warranty is expressly stated to have been made as of an earlier date, as of such earlier date) and as if each reference in said Section 8 to "this Agreement" included reference to this Amendment No. 3 (except, with respect to events occurring after the Closing Date and covered by Section 8.13 of the Credit Agreement, to the extent that such events have not resulted, and may not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect); and

(ii) both immediately prior to and after giving effect to this Amendment No. 3, no Default has occurred and is continuing.

**Section 4. Conditions Precedent.** As provided in Section 2 above, the amendments to the Credit Agreement set forth in said Section 2 shall become effective, as of the date hereof, on the date of the execution and delivery of this Amendment No. 3 by (i) the Borrowers, ISP and the Subsidiary Guarantors and (ii) either the Agent and the Majority Banks or the Agent acting with the written consent of the Majority Banks.

**Section 5. Ratification of Credit Agreement.** The Borrowers, ISP and the Subsidiary Guarantors ratify and confirm the provisions of the Credit Agreement, as amended hereby, acknowledge that references to "this Agreement" in the Credit Agreement are to the Credit Agreement, as amended hereby, and further acknowledge that, except as herein provided, the Credit Agreement shall remain unchanged and in full force and effect.

**Section 6. Miscellaneous.** This Amendment No. 3 may be executed in any number of counterparts, all of which taken together shall constitute one and the same amendatory instrument and any of the parties hereto may execute this Amendment No. 3 by signing any such counterpart. This Amendment No. 3 shall be governed by, and construed in accordance with, the law of the State of New York.

**Amendment No. 3 to Credit Agreement**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 3 to be duly executed and delivered as of the day and year first above written.

Borrowers

ISP CHEMICALS INC.  
ISP TECHNOLOGIES INC.

By Mal A. Panto  
Title: Vice President & Asst Treasurer

Parent Guarantor

INTERNATIONAL SPECIALTY  
PRODUCTS INC.

By Mal A. Panto  
Title: Vice President & Asst Treasurer

Subsidiary Guarantors

ISP (PUERTO RICO) INC.  
ISP ENVIRONMENTAL SERVICES INC.  
ISP FILTERS INC.  
ISP GLOBAL TECHNOLOGIES INC.  
ISP INTERNATIONAL CORP.  
ISP INVESTMENTS INC.  
ISP MANAGEMENT COMPANY, INC.  
ISP MINERAL PRODUCTS INC.  
ISP MINERALS INC.  
ISP REAL ESTATE COMPANY, INC.  
ISP REALTY CORPORATION  
VERONA INC.  
BLUEHALL INCORPORATED  
ISP VAN DYK INC.  
ISP FINE CHEMICALS INC.  
ISP NEWARK INC.

By Mal A. Panto  
Title: Vice President & Asst Treasurer

Amendment No. 3 to Credit Agreement

BanksCommitment

\$25,000,000.00

THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION)By J. L.

Title: Managing Director

\$35,000,000.00

The Bank of New York

By \_\_\_\_\_

Title: \_\_\_\_\_

\$35,000,000.00

The Bank of Nova Scotia

By \_\_\_\_\_

Title: \_\_\_\_\_

\$25,000,000.00

Banque Paribas

By \_\_\_\_\_

Title: \_\_\_\_\_

By \_\_\_\_\_

Title: \_\_\_\_\_

\$25,000,000.00

Continental Bank, N.A.

By \_\_\_\_\_

Title: \_\_\_\_\_

\$25,000,000.00

Credit Lyonnais New York Branch

By \_\_\_\_\_

Title: \_\_\_\_\_

Credit Lyonnais Cayman Island  
Branch

By \_\_\_\_\_

Title: \_\_\_\_\_

Amendment No. 3 to Credit Agreement

BanksCommitment

\$25,000,000.00

THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION)By \_\_\_\_\_  
Title: Managing Director

\$35,000,000.00

The Bank of New York

By *[Signature]*  
Title: Assistant Vice President

\$35,000,000.00

The Bank of Nova Scotia

By \_\_\_\_\_  
Title:

\$25,000,000.00

Banque Paribas

By \_\_\_\_\_  
Title:By \_\_\_\_\_  
Title:

\$25,000,000.00

Continental Bank, N.A.

By \_\_\_\_\_  
Title:

\$25,000,000.00

Credit Lyonnais New York Branch

By \_\_\_\_\_  
Title:Credit Lyonnais Cayman Island  
BranchBy \_\_\_\_\_  
Title:Amendment No. 3 to Credit Agreement

BanksCommitment

\$25,000,000.00

THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION)

By \_\_\_\_\_

Title: Managing Director

\$35,000,000.00

The Bank of New York

By \_\_\_\_\_

Title: \_\_\_\_\_

\$35,000,000.00

The Bank of Nova Scotia

By Henry J. J. J.

Title: VP

\$25,000,000.00

Banque Paribas

By \_\_\_\_\_

Title: \_\_\_\_\_

By \_\_\_\_\_

Title: \_\_\_\_\_

\$25,000,000.00

Continental Bank, N.A.

By \_\_\_\_\_

Title: \_\_\_\_\_

\$25,000,000.00

Credit Lyonnais New York Branch

By \_\_\_\_\_

Title: \_\_\_\_\_

Credit Lyonnais Cayman Island  
Branch

By \_\_\_\_\_

Title: \_\_\_\_\_

Amendment No. 3 to Credit Agreement

BanksCommitment

\$25,000,000.00

THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION)

By \_\_\_\_\_

Title: Managing Director

\$35,000,000.00

The Bank of New York

By \_\_\_\_\_

Title: \_\_\_\_\_

\$35,000,000.00

The Bank of Nova Scotia

By \_\_\_\_\_

Title: \_\_\_\_\_

\$25,000,000.00

Banque Paribas

By \_\_\_\_\_

Title: \_\_\_\_\_

By \_\_\_\_\_

Title: \_\_\_\_\_

\$25,000,000.00

Continental Bank, N.A.

By Ruth ElorossoTitle: Vice President

\$25,000,000.00

Credit Lyonnais New York Branch

By \_\_\_\_\_

Title: \_\_\_\_\_

Credit Lyonnais Cayman Island  
Branch

By \_\_\_\_\_

Title: \_\_\_\_\_

Amendment No. 3 to Credit Agreement

Commitment

\$35,000,000.00

NationsBank of North Carolina, N.A.

By *[Signature]*Title: *VP*

\$23,333,333.33

The First National Bank of Boston

By \_\_\_\_\_

Title: \_\_\_\_\_

\$23,333,333.34

Fleet Bank, N.A.

By \_\_\_\_\_

Title: \_\_\_\_\_

\$23,333,333.33

Mellon Bank, N.A.

By \_\_\_\_\_

Title: \_\_\_\_\_

\$ 14,000,000.00

The Sumitomo Bank, Limited,  
New York Branch

By \_\_\_\_\_

Title: \_\_\_\_\_

\$ 14,000,000.00

The Yasuda Trust and Banking Company  
Limited, New York Branch

By \_\_\_\_\_

Title: \_\_\_\_\_

\$10,000,000.00

Mitsui Trust Bank (U.S.A.)

By \_\_\_\_\_

Title: \_\_\_\_\_

\$ 9,000,000.00

The Daiwa Bank, Limited

By \_\_\_\_\_

Title: \_\_\_\_\_

By \_\_\_\_\_

Title: \_\_\_\_\_

Amendment No. 3 to Credit Agreement

Commitment

\$35,000,000.00	NationsBank of North Carolina, N.A.
	By _____
	Title: _____
\$23,333,333.33	The First National Bank of Boston
	By _____
	Title: <u>James M. Mathis</u>
	<u>Director</u>
\$23,333,333.34	Fleet Bank, N.A.
	By _____
	Title: _____
\$23,333,333.33	Mellon Bank, N.A.
	By _____
	Title: _____
\$ 14,000,000.00	The Sumitomo Bank, Limited, New York Branch
	By _____
	Title: _____
\$ 14,000,000.00	The Yasuda Trust and Banking Company Limited, New York Branch
	By _____
	Title: _____
\$10,000,000.00	Mitsui Trust Bank (U.S.A.)
	By _____
	Title: _____
\$ 9,000,000.00	The Daiwa Bank, Limited
	By _____
	Title: _____
	By _____
	Title: _____

Amendment No. 3 to Credit Agreement



Commitment

\$35,000,000.00

NationsBank of North Carolina, N.A.

By \_\_\_\_\_  
Title:

\$23,333,333.33

The First National Bank of Boston

By \_\_\_\_\_  
Title:

\$23,333,333.34

Fleet Bank, N.A.

By *D. Bamber*  
Title: Senior Vice President

\$23,333,333.33

Mellon Bank, N.A.

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

The Sumitomo Bank, Limited,  
New York BranchBy \_\_\_\_\_  
Title:

\$ 14,000,000.00

The Yasuda Trust and Banking Company  
Limited, New York BranchBy \_\_\_\_\_  
Title:

\$10,000,000.00

Mitsui Trust Bank (U.S.A.)

By \_\_\_\_\_  
Title:

\$ 9,000,000.00

The Daiwa Bank, Limited

By \_\_\_\_\_  
Title:By \_\_\_\_\_  
Title:Amendment No. 3 to Credit Agreement

Commitment

\$35,000,000.00

NationsBank of North Carolina, N.A.

By \_\_\_\_\_  
Title:

\$23,333,333.33

The First National Bank of Boston

By \_\_\_\_\_  
Title:

\$23,333,333.34

Fleet Bank, N.A.

By \_\_\_\_\_  
Title:

\$23,333,333.33

Mellon Bank, N.A.

By George B. Davis  
Title: One President

\$ 14,000,000.00

The Sumitomo Bank, Limited,  
New York Branch

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

The Yasuda Trust and Banking Company  
Limited, New York Branch

By \_\_\_\_\_  
Title:

\$10,000,000.00

Mitsui Trust Bank (U.S.A.)

By \_\_\_\_\_  
Title:

\$ 9,000,000.00

The Daiwa Bank, Limited

By \_\_\_\_\_  
Title:

By \_\_\_\_\_  
Title:

Amendment No. 3 to Credit Agreement

Commitment

\$35,000,000.00	NationsBank of North Carolina, N.A.
	By _____
	Title: _____
\$23,333,333.33	The First National Bank of Boston
	By _____
	Title: _____
\$23,333,333.34	Fleet Bank, N.A.
	By _____
	Title: _____
\$23,333,333.33	Mellon Bank, N.A.
	By _____
	Title: _____
\$ 14,000,000.00	The Sumitomo Bank, Limited, New York Branch
	By <u>J. Lawrence</u>
	Title: Joint General Manager
\$ 14,000,000.00	The Yasuda Trust and Banking Company Limited, New York Branch
	By _____
	Title: _____
\$10,000,000.00	Mitsui Trust Bank (U.S.A.)
	By _____
	Title: _____
\$ 9,000,000.00	The Daiwa Bank, Limited
	By _____
	Title: _____
	By _____
	Title: _____

Amendment No. 3 to Credit Agreement

Commitment

\$35,000,000.00

NationsBank of North Carolina, N.A.

By \_\_\_\_\_  
Title:

\$23,333,333.33

The First National Bank of Boston

By \_\_\_\_\_  
Title:

\$23,333,333.34

Fleet Bank, N.A.

By \_\_\_\_\_  
Title:

\$23,333,333.33

Mellon Bank, N.A.

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

The Sumitomo Bank, Limited,  
New York BranchBy \_\_\_\_\_  
Title:

\$ 14,000,000.00

The Yasuda Trust and Banking Company  
Limited, New York BranchBy *Neil G. Cla*  
Title:

\$10,000,000.00

Mitsui Trust Bank (U.S.A.)

By \_\_\_\_\_  
Title:

\$ 9,000,000.00

The Daiwa Bank, Limited

By \_\_\_\_\_  
Title:By \_\_\_\_\_  
Title:Amendment No. 3 to Credit Agreement

Commitment

\$35,000,000.00

NationsBank of North Carolina, N.A.

By \_\_\_\_\_  
Title:

\$23,333,333.33

The First National Bank of Boston

By \_\_\_\_\_  
Title:

\$23,333,333.34

Fleet Bank, N.A.

By \_\_\_\_\_  
Title:

\$23,333,333.33

Mellon Bank, N.A.

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

The Sumitomo Bank, Limited,  
New York BranchBy \_\_\_\_\_  
Title:

\$ 14,000,000.00

The Yasuda Trust and Banking Company  
Limited, New York BranchBy \_\_\_\_\_  
Title:

\$10,000,000.00

Mitsui Trust Bank (U.S.A.)

By [Signature]  
Title: President

\$ 9,000,000.00

The Daiwa Bank, Limited

By \_\_\_\_\_  
Title:By \_\_\_\_\_  
Title:Amendment No. 3 to Credit Agreement

Commitment

\$ 9,000,000.00

Morgan Guaranty Trust Company of  
New YorkBy John J. [Signature]  
Title: \_\_\_\_\_

\$14,000,000.00

National City Bank

By \_\_\_\_\_  
Title: \_\_\_\_\_

\$ 9,000,000.00

The Nippon Credit Bank, LTD.,  
New York BranchBy \_\_\_\_\_  
Title: \_\_\_\_\_

\$ 9,000,000.00

Banca Commerciale Italiana New  
York BranchBy \_\_\_\_\_  
Title: \_\_\_\_\_By \_\_\_\_\_  
Title: \_\_\_\_\_

\$ 9,000,000.00

LTCB Trust Company

By \_\_\_\_\_  
Title: \_\_\_\_\_

\$ 14,000,000.00

Societe Generale

By \_\_\_\_\_  
Title: \_\_\_\_\_

\$ 14,000,000.00

Marine Midland Bank, N.A.

By \_\_\_\_\_  
Title: \_\_\_\_\_Amendment No. 3 to Credit Agreement

Commitment

\$ 9,000,000.00

Morgan Guaranty Trust Company of  
New YorkBy \_\_\_\_\_  
Title:

\$14,000,000.00

National City Bank

By Robert C. Fane  
Title: Account officer

\$ 9,000,000.00

The Nippon Credit Bank, LTD.,  
New York BranchBy \_\_\_\_\_  
Title:

\$ 9,000,000.00

Banca Commerciale Italiana New  
York BranchBy \_\_\_\_\_  
Title:By \_\_\_\_\_  
Title:

\$ 9,000,000.00

LTCB Trust Company

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

Societe Generale

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

Marine Midland Bank, N.A.

By \_\_\_\_\_  
Title:Amendment No. 3 to Credit Agreement

Commitment

\$ 9,000,000.00

Morgan Guaranty Trust Company of  
New YorkBy \_\_\_\_\_  
Title:

\$14,000,000.00

National City Bank

By \_\_\_\_\_  
Title:

\$ 9,000,000.00

The Nippon Credit Bank, LTD.,  
New York BranchBy Hideaki Mori  
Title: VICE PRESIDENT & MANAGER

\$ 9,000,000.00

Banca Commerciale Italiana New  
York BranchBy \_\_\_\_\_  
Title:By \_\_\_\_\_  
Title:

\$ 9,000,000.00

LTCB Trust Company

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

Societe Generale

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

Marine Midland Bank, N.A.

By \_\_\_\_\_  
Title:Amendment No. 3 to Credit Agreement



Commitment

\$ 9,000,000.00

Morgan Guaranty Trust Company of  
New YorkBy \_\_\_\_\_  
Title:

\$14,000,000.00

National City Bank

By \_\_\_\_\_  
Title:

\$ 9,000,000.00

The Nippon Credit Bank, LTD.,  
New York BranchBy \_\_\_\_\_  
Title:

\$ 9,000,000.00

Banca Commerciale Italiana, New  
York BranchBy Charles Dougherty  
Title: VPBy Gulimukel  
Title: AVP

\$ 9,000,000.00

LTGB Trust Company

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

Societe Generale

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

Marine Midland Bank, N.A.

By \_\_\_\_\_  
Title:Amendment No. 3 to Credit Agreement

Commitment

\$ 9,000,000.00

Morgan Guaranty Trust Company of  
New YorkBy \_\_\_\_\_  
Title:

\$14,000,000.00

National City Bank

By \_\_\_\_\_  
Title:

\$ 9,000,000.00

The Nippon Credit Bank, LTD.,  
New York BranchBy \_\_\_\_\_  
Title:

\$ 9,000,000.00

Banca Commerciale Italiana New  
York BranchBy \_\_\_\_\_  
Title:By \_\_\_\_\_  
Title:

\$ 9,000,000.00

LTCS Trust Company

By Fumi Kuroshida  
Title: Senior Vice President

\$ 14,000,000.00

Societe Generale

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

Marine Midland Bank, N.A.

By \_\_\_\_\_  
Title:Amendment No. 3 to Credit Agreement

Commitment

\$ 9,000,000.00

Morgan Guaranty Trust Company of  
New YorkBy \_\_\_\_\_  
Title:

\$14,000,000.00

National City Bank

By \_\_\_\_\_  
Title:

\$ 9,000,000.00

The Nippon Credit Bank, LTD.,  
New York BranchBy \_\_\_\_\_  
Title:

\$ 9,000,000.00

Banca Commerciale Italiana New  
York BranchBy \_\_\_\_\_  
Title:By \_\_\_\_\_  
Title:

\$ 9,000,000.00

LTCB Trust Company

By \_\_\_\_\_  
Title:

\$ 14,000,000.00

Societa Generale

By   
Title: Vice President

\$ 14,000,000.00

Marine Midland Bank, N.A.

By \_\_\_\_\_  
Title:Amendment No. 3 to Credit Agreement

Commitment

\$ 9,000,000.00	Morgan Guaranty Trust Company of New York
	By _____ Title: _____
\$14,000,000.00	National City Bank
	By _____ Title: _____
\$ 9,000,000.00	The Nippon Credit Bank, LTD., New York Branch
	By _____ Title: _____
\$ 9,000,000.00	Banca Commerciale Italiana New York Branch
	By _____ Title: _____
	By _____ Title: _____
\$ 9,000,000.00	LTCB Trust Company
	By _____ Title: _____
\$ 14,000,000.00	Societe Generale
	By _____ Title: _____
\$ 14,000,000.00	Marine Midland Bank, N.A.
	By <u>[Signature]</u> Title <u>President</u>

Amendment No. 3 to Credit Agreement

The Agent

THE CHASE MANHATTAN BANK  
(NATIONAL ASSOCIATION), as Agent

By

A handwritten signature in dark ink, appearing to be "Peter J. ...", is written over a horizontal line.

Title: Managing Director

Amendment No. 3 to Credit Agreement

**EXHIBIT 10.5**

**AMENDED AND RESTATED MANAGEMENT AGREEMENT**

THIS AMENDED AND RESTATED MANAGEMENT AGREEMENT is made as of March 3, 1992, by and among GAF Building Materials Corporation ("Building Materials"), GAF Broadcasting Company, Inc. ("Broadcasting" and, collectively with Building Materials, the "Overhead Group"), GAF Corporation ("GAF"), G-I Holdings Inc. ("Holdings"), G Industries Corp. ("Industries"), Perth Inc. ("Perth"), Merick Inc. ("Merick"), GAF Chemicals Corporation ("Chemicals" and, collectively with GAF, Holdings, Industries, Perth and Merick, the "Corporate Entities") and International Specialty Products Inc. (the "Company"), all of which are Delaware corporations.

WHEREAS, the parties hereto are parties to an Amended and Restated Management Agreement made as of May 8, 1991 (the "Existing Agreement");

WHEREAS, the members of the Overhead Group desire to have the Company provide certain management services to them, as more fully described below;

WHEREAS, the Company is willing to provide such management services to the members of the Overhead Group but will incur certain costs and expenses relating to those services;

WHEREAS, the parties desire to pay certain of each other's expenses for their mutual administrative convenience until such time as such expenses can be directly billed or charged to the party that incurred them, so long as each party that incurs such expense promptly reimburses the party that pays the cost thereof;

WHEREAS, GAF and Holdings incurred certain continuing administrative costs in connection with the financing of G Industries' acquisition of the corporation formerly known as GAF Corporation ("Old GAF") on March 29, 1989 in consideration of G Industries' agreement to pay for such administrative costs, and GAF, Holdings and G Industries desire to continue such agreement; and

WHEREAS, the parties hereto desire to amend and restate in its entirety the Existing Agreement as hereinafter set forth;

NOW THEREFORE, in consideration of the mutual promises and subject to the conditions contained herein, the parties hereby amend and restate in its entirety the Existing Agreement and it is hereby agreed as follows:

1. Term. The initial term of this Agreement (the "Term") shall commence on the date hereof and shall continue for a period of 36 consecutive months. The first 12 months of the Term are herein referred to as "Year 1",



the immediately succeeding 12 months of the Term are herein referred to as "Year 2" and the final 12 months of the Term are herein referred to as "Year 3".

2. Provision of Services. The Company agrees to provide to the Overhead Group and the Corporate Entities, to the extent required by each of them, the following management services, wherever rendered (except as the location may be limited below), which shall be provided on a continuous basis without specific request:

- (i) General management;
- (ii) Financial services, including insurance management, accounting, payroll and control and tax services;
- (iii) Legal and corporate secretarial services;
- (iv) Computer services;
- (v) Administrative services, including personnel and employee benefit plan administration and telephone, telecopy, telex, photocopy and cafeteria services at the Company's headquarters located in Wayne, New Jersey (the "Headquarters");

- (vi) Facilities' services and utilities  
such as heat, electricity and water,  
at the Headquarters.

The foregoing list of services shall not be deemed exhaustive and may be changed according to the changing business needs of the parties hereto from time to time upon mutual agreement among such parties (all services provided by the Company pursuant to this Section 3 being hereinafter collectively referred to as the "Services").

3. Management Fee. In consideration of the Company providing the Overhead Group with the Services, the members of the Overhead Group shall each pay to the Company, or to any of its subsidiaries as the Company shall designate, a management fee (the "Management Fee") at the following respective annual rates:

	<u>Building Materials</u>	<u>Broadcasting</u>
Year 1	\$ 4,179,000	\$ 139,000
Year 2	4,387,950	145,950
Year 3	4,607,347	153,248

The Management Fee shall be payable by the members of the Overhead Group quarterly in arrears.

4. Reimbursement of Expenses.

(a) To the extent any party to this Agreement pays any expense attributable to another party hereto for

reasons of administrative convenience (a "Reimbursable Expense"), the party that paid the Reimbursable Expense shall promptly bill the party that incurred such expense for the amount thereof, and the party that incurred such expense shall promptly pay such invoice. If a Reimbursable Expense is part of a combined or consolidated expense billed or otherwise charged to a single party though incurred for the benefit of more than one party, the parties for whose benefit such expense was incurred shall endeavor to arrange for direct billing or charging to them of their respective portions of such expense.

(b) Any party that bills another party for Reimbursable Expenses during a calendar quarter shall provide to such other party, following the completion of such quarter, a statement indicating all amounts invoiced during such quarter and whether such amounts have been paid.

5. Warranty. The Company warrants that it will employ sufficient and properly skilled personnel to perform the Services in a professional manner. It is understood that the Company may enter into contracts with third party suppliers to supply the Services and shall take into account the best interests of the recipient thereof in negotiating the terms and conditions of such contracts.

**6. Administrative Expenses.**

G Industries agrees to pay all of the costs and expenses of GAF and Holdings in connection with their businesses as holding companies, including but not limited to the following:

- (i) Bank account fees;
- (ii) Trustee's fees and expenses (if any);
- (iii) Printing fees for stationery, checks and certificates;
- (iv) Registered agent fees;
- (v) Costs associated with the maintenance of their headquarters offices;
- (vi) Franchise taxes (unless covered by any Tax Sharing Agreement to which GAF, Holdings and G Industries are party).

This list shall not be deemed exhaustive and may be changed according to the changing business needs of the parties from time to time upon mutual agreement between the parties.

Payment by G Industries in respect of the foregoing costs and expenses shall be due and payable promptly after receipt from GAF or Holdings of evidence that payment of such costs and expenses is due to third parties.

**7. Records and Audit.** Any party that bills another for Reimbursable Expenses, or costs and expenses

pursuant to Section 6, shall make and maintain accurate and complete records of such expenses and the basis for all invoices therefor, and shall ensure that there is no duplication in the invoicing of costs to any party. Each party that pays any Reimbursable Expenses, or costs and expenses pursuant to Section 6, invoiced to it shall have the right to audit the records relating thereto from time to time during normal business hours.

8. Amendments.

(a) The parties acknowledge that the Management Fee has been established to reflect the cost to the Company of providing Services hereunder on the date hereof. In the event of a change of circumstances that materially affects the cost to the Company of providing Services hereunder, including, without limitation, a substantial increase in the Services provided to any member of the Overhead Group or any of the Corporate Entities, the parties, subject to Section 9.23 of the Amendment and Restatement dated as of February \_\_\_, 1992, as the same may be amended, supplemented or otherwise modified from time to time, among Industries, the Company, the Borrowers and Domestic Subsidiary Guarantors named therein, the Lenders and the Co-Agents and Co-Arrangers party thereto and The Chase Manhattan Bank (National Association), as Administrative Agent, shall

negotiate in good faith such amendments to this Agreement as may be appropriate to take into account the effect of any such change of circumstances. Such amendments may include, without limitation, an increase or decrease of the Management Fee in the case of the members of the Overhead Group, or the establishment of a management fee payable to the Company in the case of the Corporate Entities.

(b) Subject to paragraph (c) of this Section 8, any amendment, modification or waiver of any provision of this Agreement shall only be effective if evidenced by a written instrument signed by an officer of the Company and an officer of the other party or parties affected by such amendment, modification or waiver.

(c) Notwithstanding anything else to the contrary contained herein, the list of Services may be revised by mutual agreement of an officer of each party affected thereby without the need for a written instrument.

9. Governing Law. The execution, validity, interpretation and enforcement of this Agreement shall be governed by the laws of the State of New York.

10. Amendment and Restatement. This Agreement is an amendment and restatement of and supersedes and supplants the Existing Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first above written.

GAF BROADCASTING COMPANY, INC.

By: Stephen A. Block  
Name: Stephen A. Block  
Title: Senior Vice President

GAF BUILDING MATERIALS CORPORATION

By: Stephen A. Block  
Name: Stephen A. Block  
Title: V. O. President, Finance

G-I HOLDINGS INC.

By: Stephen A. Block  
Name: Stephen A. Block  
Title: Senior Vice President

GAF CORPORATION

By: Stephen A. Block  
Name: Stephen A. Block  
Title: Senior Vice President

PERTH INC.

By: Stephen A. Block  
Name: Stephen A. Block  
Title: Senior Vice President

G INDUSTRIES CORP.

By: Stephen A. Block  
Name: Stephen A. Block  
Title: Senior Vice President

GAF CHEMICALS CORPORATION

By: Stephen A. Block  
Name: Stephen A. Block  
Title: Senior Vice President

MERICK INC.

By: Stephen A. Block  
Name: Stephen A. Block  
Title: Senior Vice President

INTERNATIONAL SPECIALTY PRODUCTS INC.

By: Stephen A. Block  
Name: Stephen A. Block  
Title: Senior Vice President

**EXHIBIT 10.6**



## AMENDMENT

AMENDMENT dated as of January 1, 1994 to AMENDED AND RESTATED MANAGEMENT AGREEMENT dated as of March 3, 1992 (the "Agreement"), among GAF Building Materials Corporation ("Building Materials"), GAF Broadcasting Company, Inc. ("Broadcasting"), GAF Corporation ("GAF"), G-I Holdings Inc. ("Holding"), G Industries Corp. ("Industries"), Merick Inc. ("Merick"), GAF Chemicals Corporation ("Chemicals") and International Specialty Products Inc. (the "Company"), all of which are Delaware corporations.

WHEREAS, the parties acknowledged in Section 8 of the Agreement that the management fee payable to the Company under the Agreement was established to reflect the cost to the Company of providing services thereunder on the date thereof and the Agreement provides that, in the event of a change of circumstances that materially affects the cost to the Company of providing services, the parties shall negotiate in good faith such amendments to the Agreement as may be appropriate to take into account the effect of any such change of circumstances, including an increase or decrease in the management fee.

WHEREAS, the Company has begun implementation of a cost reduction program which has reduced the cost to the Company of providing services under the Agreement and the parties have agreed upon an adjustment in the management fee in light thereof;

WHEREAS, the parties have determined to extend the term of the Agreement;

NOW, THEREFORE, the parties hereby amend the Agreement as follows:

1. Section 3 of the Agreement is amended to add as the second sentence thereof the following:

"Notwithstanding the foregoing, effective January 1, 1994, the Management Fee payable by Building Materials and GAF Broadcasting shall be at the annual rates of \$4,213,000 and \$140,131, respectively.

2. In all other respects, the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first above written.

GAF BROADCASTING COMPANY, INC.

By: [Signature]  
Name: Andrew D. Boynton  
Title: President GM

GAF CORPORATION  
G-I HOLDINGS INC.  
G INDUSTRIES CORP.  
MERICK INC.  
GAF CHEMICALS CORPORATION

By: [Signature]  
Name: Mark A. Bukstein  
Title: Executive Vice President,  
General Counsel & Secretary

amdent.aa

GAF BUILDING MATERIALS CORPORATION

By: [Signature]  
Name: JOHN M. SERGEY  
Title: President

INTERNATIONAL SPECIALTY PRODUCTS INC.

By: [Signature]  
Name: Richard B. Olsen  
Title: Senior Vice President &  
Chief Financial Officer

**EXHIBIT 10.7**

## **TAX SHARING AGREEMENT**

THIS TAX SHARING AGREEMENT made as of the 7th day of September, 1993, by and among GAF Corporation, a Delaware corporation ("GAF"), G-I Holdings Inc., a Delaware corporation ("G-I Holdings") and G Industries Corp. ("G Industries").

WHEREAS, GAF is the common parent of an affiliated group of corporations (the "GAF Group") within the meaning of Section 1504(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and G-I Holdings is a member of such affiliated group;

WHEREAS, GAF, G-I Holdings and G Industries are parties to the Tax Sharing Agreement for GAF Corporation and its Subsidiaries, dated as of September \_\_\_, 1990 (the "Former Tax Sharing Agreement");

WHEREAS, the parties to the Former Tax Sharing Agreement wish to terminate such agreement;

WHEREAS, GAF and G-I Holdings wish to provide for the allocation among them of the consolidated federal income tax liability of the GAF Group and for certain related matters for periods ending after the date hereof;

NOW, THEREFORE, in consideration of the forgoing premises and of the mutual covenants contained herein, the parties hereto hereby agree as follows:

1. DEFINITIONS

a. Where applicable, terms used in this Agreement shall have the meanings ascribed to them in, and shall be interpreted in accordance with, the Code, and the regulations and rulings issued thereunder, as in effect from time to time.

b. For purposes of this Agreement, the terms set forth below shall be defined as follows:

(i) GAF Group -- GAF, G-I Holdings and all corporations (whether now existing or hereafter formed or acquired) that at the time join with GAF (or any successor common parent corporation) in filing a consolidated federal income tax return.

(ii) Parent -- GAF, or any successor common parent corporation of the GAF Group.

(iii) G-I Holdings -- G-I Holdings, or any successor corporation.

(iv) G-I Holdings Group -- the affiliated group of corporations of which G-I Holdings would be the common parent were it not a member of the GAF Group.

(v) GAF Group Actual Tax Liability --

The consolidated federal income tax liability reported on the consolidated federal income tax return filed by the GAF Group for the taxable year.

(vi) G-I Holdings Tax Liability --

The hypothetical federal income tax liability, determined at the end of the taxable year, of the G-I Holdings Group, computed as if the G-I Holdings Group had filed its own consolidated federal income tax return for such taxable year and all prior taxable years beginning at the date hereof or thereafter during the term of this Agreement; provided, however, that the G-I Holdings Tax Liability shall be computed (1) subject to the modifications specified in Treas. Reg. Sec. 1.1552-1(a)(2)(ii) other than the modifications specified in Treas. Reg. Sec. 1.1552-1(a)(2)(ii)(a) and Treas. Reg. Sec. 1.1552-1(a)(2)(ii)(b); (2) using the highest marginal corporate rate; and (3) using the same elections and methods of accounting with respect to G-I Holdings as are used in the determination of the GAF Group Actual Tax Liability. The G-I Holdings Tax Liability shall be determined each taxable year by Parent in its sole discretion.

(vii) G-I Holdings Estimated Tax Liability -- G-I Holdings Tax Liability, determined through the end of each period for which estimated federal income tax payments are due. The G-I Holdings Estimated Tax Liability shall be determined each taxable year by Parent in its sole discretion, in accordance with the principles of paragraph 1(b)(vi) hereof.

(viii) G-I Holdings Tax Refund -- The hypothetical federal income tax refund for any year to which G-I Holdings would be entitled determined in accordance with the principles of paragraph 1(b)(vi) and using an amount of carryback of G-I Holdings tax items only when and to the extent such deduction, loss or credit reduces the GAP Group Actual Tax Liability or reduces the GAP Group actual consolidated federal taxable income for such year during the term of this Agreement (taking such deduction, loss or credit into account on a pro rata basis with those of all members of the GAP Group other than G-I Holdings); provided, however, that such loss, deduction or credit has not been previously utilized to reduce the G-I Holdings Tax Liability or the G-I Holdings hypothetical federal taxable income. The G-I Holdings Tax Refund shall be determined each taxable year by Parent in its sole discretion.

(ix) tax -- any tax measured by income or gross receipts of the taxpayer, including but not limited to regular corporate income tax or corporate alternative minimum tax, together with any and all interest, additions to tax, fines and penalties payable with respect thereto.

2. PAYMENTS OF CONSOLIDATED  
FEDERAL INCOME TAX LIABILITY

a. Tax Payments by Parent

Parent shall file consolidated federal income tax returns and estimated tax returns for each taxable year during the term of this Agreement, which returns shall include the G-I Holdings Group and shall pay in full any tax shown due on such returns.

b. Tax Payments by G-I Holdings

For each taxable year or portion thereof during which the G-I Holdings Group is included in a consolidated federal income tax return with Parent, G-I Holdings will pay to Parent an amount equal to the G-I Holdings Tax Liability; provided, however, that the amount payable pursuant to this paragraph 2(b) for any year shall not exceed the limitation set forth in paragraph 5. To the extent that the obligation to pay such amount has not been fully satisfied pursuant to paragraph 2(c) hereof or Section 6 of the Former Agreement, G-I Holdings shall pay any such remaining amount to Parent



no later than five (5) days prior to the due date for the filing by Parent of the consolidated federal income tax return for the GAF Group (without regard to extensions).

c. Estimated Payments

On any date on which Parent is to make an estimated federal income tax payment of the GAF Group on a consolidated basis, G-I Holdings will make an estimated payment to Parent in an amount equal to the G-I Holdings Estimated Tax Liability (reduced by all prior payments required to be made by G-I Holdings under this paragraph 2(c) or Section 6 of the Former Agreement); provided, however, that the amount payable pursuant to this paragraph 2(c) for any year shall not exceed the limitation set forth in paragraph 5. If the total of such estimated payments made by G-I Holdings to Parent with respect to a taxable year shall be in excess of the liability of G-I Holdings to Parent pursuant to paragraph 2(b) for such taxable year, Parent shall pay the amount of such excess to G-I Holdings, (x) to the extent that such excess (or part thereof) represents all or part of a tax refund to be received by the GAF Group, no later than five (5) days after the receipt of such refund with an allocable share of interest received thereon (net of tax; provided, however, that such interest shall not be treated as an item of income of G-I Holdings

under this Agreement); (y) to the extent such excess (or part thereof) represents all or part of a credit against the GAF Group's estimated tax for a succeeding taxable year, no later than five (5) days after such estimated tax payments against which such excess is credited is paid by the Parent; or (z) to the extent (x) and (y) do not apply to such excess (or part thereof), no later than the date on which Parent files the consolidated federal income tax return for the GAF Group.

d. Tax Refunds

Parent shall pay to G-I Holdings the amount of any G-I Holdings Tax Refund for each taxable year ending after the date hereof. Such payments shall be made no later than (i) in the case of an actual refund to which the GAF Group is entitled, five (5) days after such refund is received by Parent on behalf of the GAF Group or (ii) otherwise, five (5) days after the date on which Parent files the consolidated federal income tax return for the GAF Group.

3. CHANGES IN TAX LIABILITY

If the G-I Holdings Tax Liability is changed or otherwise adjusted (including, without limitation, by reason of the filing of an amended return, a "final determination" as defined in Section 1313(a) of the Code or any

of the events specified in Section 6213(b) or (d) of the Code), then the amount of the payment required from G-I Holdings to Parent under paragraph 2(b) or from Parent to G-I Holdings under paragraph 2(d), as the case may be, shall be recomputed by substituting the amount of G-I Holdings' tax liability after the adjustments described above in lieu of the G-I Holdings Tax Liability as previously computed. Not later than five (5) days prior to the due date for any additional payment of tax by the GAF Group or five (5) days after the receipt of a refund G-I Holdings shall pay to Parent, or Parent shall pay to G-I Holdings, as the case may be, the difference between the new G-I Holdings Tax Liability (or Refund) and the amounts previously paid. The parties recognize that such new liability (or refund) for any taxable year is not necessarily the GAF Group's or G-I Holdings' final liability for that taxable year, and may be recomputed in accordance with this paragraph 3 more than once. Payments made pursuant to this paragraph shall include an allocable portion of any interest paid or credited by the Internal Revenue Service (net of tax; provided, however, that such interest shall not be treated as an item of income of G-I Holdings); payments made pursuant to this paragraph shall not themselves bear interest.

4. ALLOCATION OF STATE AND LOCAL  
INCOME TAX LIABILITY

In the event that (i) G-I Holdings and (ii) at least one member of the GAF Group other than G-I Holdings and members of the G-I Holdings Group elect or are required to file consolidated, combined or unitary state or local income tax returns or otherwise become liable for state or local income taxes determined on a consolidated, combined or unitary basis, principles analogous to those set forth herein for the payment of consolidated federal income tax liability and refunds thereof shall be used to determine their respective shares of such taxes and the amount of any payments due G-I Holdings from Parent on behalf of all members of the GAF Group other than members of the G-I Holdings Group or due Parent from G-I Holdings.

5. LIMITATIONS ON PAYMENTS

Notwithstanding anything to the contrary in this Agreement, no payment from G-I Holdings to Parent pursuant to paragraphs 2, 3 or 4 hereof shall be required to exceed the amount of the actual tax in respect of which the G-I Holdings payment is made that is actually paid (or required to be paid) by Parent (or, in the case of payments under paragraph 4, such other members of the GAF Group).

Any amount not paid by reason of the limitation in this paragraph 5 (the "Deferred Amount") shall be deferred and (subject to prior reduction of the Deferred Amount under Section 6) shall be payable (i) at such time as G-I Holdings is no longer a member of the GAF Group, each year to the extent of GAF Group Actual Tax Liability for such year (but not in excess of the amount by which utilization in such year of the GAF attributes previously utilized by G-I Holdings to create the Deferred Amount would have reduced the GAF Group Actual Tax Liability in such year) or (ii) after the retirement of the Senior Discount Notes, due 1998, of G-I Holdings.

6. PAYMENT

Any payment required by G-I Holdings to Parent hereunder shall be made in cash and any payment required by Parent to G-I Holdings hereunder shall be made in cash; provided, however, that if at the time a payment is due from Parent under Section 2(d) to G-I Holdings there is a Deferred Amount, then the Deferred Amount (to the extent thereof) shall be reduced by the amount of such payment and Parent shall not be required to make a payment to G-I Holdings to the extent of such reduction.

7. PROCEDURAL MATTERS

Parent shall prepare and file the consolidated federal income tax returns, consolidated, combined or unitary state or local income tax returns and any other returns, documents or statements required to be filed with respect to the determination of the consolidated, combined or unitary federal, state or local income tax liability of the GAF Group or members thereof for all taxable years of the GAF Group or members thereof (including taxable years ending prior to or including the date hereof). In its sole discretion, Parent shall have the right to make all decisions with respect to such returns and all matters relating to the federal, state or local income tax liability of the GAF Group and members thereof for all taxable years of the GAF Group or members thereof (including taxable years ending prior to or including the date hereof) including, without limitation, the right (a) to determine (i) the manner in which such returns, documents or statements shall be prepared and filed, including, without limitation, the manner in which any item of income, gain, loss, deduction or credit shall be reported and whether any amended returns shall be filed, (ii) whether any filing extensions may be requested and (iii) the elections that will be made by any member, (b) to contest, compromise or settle any adjustment

or deficiency proposed, asserted or assessed as a result of any audit of such returns, (c) to file, prosecute, compromise or settle any claim for refund and (d) to determine whether any refunds, to which the GAF Group may be entitled, shall be paid by way of refund or credited against the tax liability for the affiliated group. Each member of the G-I Holdings Group hereby irrevocably appoints Parent as its agent and attorney-in-fact to take such action (including the execution of documents) as Parent may deem appropriate to effect the foregoing.

8. TERMINATION OF AFFILIATION

a. In the event that G-I Holdings or any member of the G-I Holdings Group ceases to be included in the GAF Group (the "Former Member"), Parent and the Former Member shall furnish each other with information required to prepare (i) the consolidated federal income tax return of the GAF Group for the last taxable year in which the Former Member had been included in the GAF Group and (ii) the federal income tax returns for all taxable years thereafter of the Former Member (and its predecessors and subsidiaries) and the Parent, respectively, in which the tax liability of either may be affected by their former affiliation (including, for example, the apportionment of any consolidated net operating or capital loss or investment or

foreign tax credit carryover to the Former Member). The Former Member shall not, without the prior written consent of the Parent (which may be withheld by Parent in its sole discretion), file an application for a carryback adjustment of the tax for a taxable year in which the Former Member was included in the GAF Group and a consolidated federal income tax return was filed by reason of a net operating loss deduction. The Former Member may file an application for a carryback adjustment of the tax for a taxable year in which the Former Member was included in the GAF Group and a consolidated federal income tax return was filed by reason of a capital loss or tax credit carryback and shall be entitled to that portion of the actual refund that is attributable to the Former Member under the consolidated return regulations; provided, however, that the Former Member shall not be entitled to any portion of such refund to the extent the items giving rise to such carryback have been previously utilized to reduce the G-I Holdings Tax Liability (or G-I Holdings hypothetical federal taxable income) or gave rise to a G-I Holdings Tax Refund.

b. The Parent and its subsidiaries and the Former Member shall each furnish the other with all information in the hands of such person as may be reasonably



requested and relates to a taxable year in which the Former Member had been included in the GAF Group.

c. If the Former Member has a carryforward of deduction, loss or credit to a taxable year following the last taxable year in which it joined in the filing of a consolidated federal income tax return which has reduced the G-I Holdings Tax Liability (or the G-I Holdings hypothetical federal taxable income) or gave rise to a G-I Holdings Tax Refund, then the Former Member shall pay to Parent at the time such carryforward is actually utilized the amount of the benefit derived therefrom.

d. Payments which would have been required under paragraphs 2, 3 or 4 to or by the Former Member, were the Former Member still a member of the GAF Group, and with respect to taxable year(s) for which the Former Member was a member of the GAF Group, shall be made in accordance with principles analogous to those set forth in such paragraph(s) and at the time(s) set forth therein.

#### 9. DETERMINATIONS

In the case of a dispute, all determinations required hereunder for each taxable year shall be made by the independent public accountants regularly employed by Parent at the time the return is filed for such taxable

year. Such determination shall be binding and conclusive upon the parties for the purposes hereof.

10. EFFECTS OF AGREEMENT

a. As among Parent and G-I Holdings, the provisions of this Agreement shall fix the liability of each to the other as to the matters covered hereunder, even if such provisions are not controlling for tax or other purposes (including, but not limited to, the computation of earnings and profits for federal tax purposes), and even if Parent and other corporations which now are, or which from time to time may become, members of the GAF Group enter into other arrangements for the allocation of the portion of the total tax liability of the GAF Group which is allocable to them.

b. This Agreement shall be effective as of the date hereof and shall remain in effect for each taxable year ending after the date hereof when G-I Holdings is included in a consolidated federal income tax return filed by the Parent; provided, that the provisions of paragraphs 2, 3, 4, 6, 8 and 11 shall survive to thirty (30) days after

the expiration of the statute of limitations on assessment of tax for the last year in which G-I Holdings was a member of the GAF Group.

c. The Former Agreement is terminated by this Agreement for all tax years ending after the date hereof. The Former Agreement shall continue to apply to all tax years to which, by its terms, it applies ended before January 1, 1993.

11. INDEMNITY

a. G-I Holdings and each member of the G-I Holdings Group agrees, jointly and severally, to indemnify Parent and each other member of the GAF Group for the amount of any tax paid by Parent or such other member, whether by application of Treas. Reg. Sec. 1.1502-6, similar provisions of state or local law or otherwise which constitutes any G-I Holdings Tax Liability (or the analogous amount determined pursuant to paragraph 4(a)), to the extent previously unpaid under this Agreement.

b. Parent agrees to indemnify G-I Holdings and each member of the G-I Holdings Group for the amount of any tax paid by G-I Holdings or any member of the G-I Holdings Group, whether by application of Treas. Reg. Sec. 1.1502-6, similar provisions of state or local law or

otherwise in excess of the amount which constitutes any G-I Holdings Tax Liability (or the analogous amount determined pursuant to paragraph 4(a)).

c. Any indemnity payable pursuant to paragraph 11(a) or 11(b) hereof shall be payable on demand by the indemnitee immediately after the indemnitee pays such indemnified liability and provides proof of payment to the indemnitor. If an indemnity is not paid within five business days following a demand, the amount owed shall bear interest at the Base Rate (as that term is defined in the Credit Agreement, dated as of July 23, 1992, among International Specialty Products Inc., ISP Chemicals Inc., ISP Technologies Inc., the Subsidiary Guarantors identified therein, the Banks and the Co-Agents party thereto and The Chase Manhattan Bank (National Association), as Administrative Agent thereunder) plus two percent.

## 12. MISCELLANEOUS PROVISIONS

a. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter contained herein. No alteration, amendment or modification of any of the terms of this Agreement shall be valid unless made by an instrument signed in writing by an authorized officer of each party.

b. This Agreement has been made in and shall be construed and enforced in accordance with the laws of the State of Delaware from time to time obtaining.

c. This Agreement shall be binding upon and inure to the benefit of each party hereto and its respective successors and assigns.

d. All notices and other communications hereunder shall be deemed to have been duly given if delivered by hand or mailed, certified or registered mail, with postage prepaid addressed to the party to which the notice or other communication is given at 1361 Alps Road, Wayne, New Jersey 07470.

e. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

f. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not constitute a part hereof.

IN WITNESS WHEREOF, the parties hereto have caused  
this Agreement to be duly executed as of the date first  
above written.

GAF CORPORATION

By:   
Title: JAMES P. ROGERS  
TREASURER

G-I HOLDINGS INC.

By:   
Title: JAMES P. ROGERS  
TREASURER

G INDUSTRIES CORP.

By:   
Title: JAMES P. ROGERS  
TREASURER

G INDUSTRIES CORP.  
1361 Alps Road  
Wayne, New Jersey 07470

As of September 7, 1993

G-I Holdings Inc.  
1361 Alps Road  
Wayne, New Jersey 07470

Ladies and Gentlemen:

G Industries Corp., a Delaware corporation ("G Industries"), hereby agrees with G-I Holdings Inc., a Delaware corporation ("G-I Holdings"), which owns all of the outstanding capital stock of G Industries, to pay to G-I Holdings all amounts received by G Industries pursuant to the Amended and Restated Tax Sharing Agreement, dated as of March 3, 1992, among GAF Corporation, G Industries, International Specialty Products Inc. and its domestic subsidiaries and, for certain purposes thereof, G-I Holdings Inc. and GAF Building Materials Corporation.

If the foregoing is acceptable to you, please sign and return to G Industries a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between G Industries and G-I Holdings in accordance with its terms.

Very truly yours,

G INDUSTRIES CORP.

By: 

Name: JAMES P. ROGERS  
Title: TREASURER

Confirmed and accepted as of  
the date first above written:

G-I HOLDINGS INC.

By: 

Name: JAMES P. ROGERS  
Title: TREASURER

EXHIBIT 10.9



INTERNATIONAL SPECIALTY PRODUCTS INC.

1991 INCENTIVE PLAN FOR KEY EMPLOYEES

AND DIRECTORS, AS AMENDED

1. PURPOSE OF THE PLAN.

The purpose of the plan is to secure for International Specialty Products Inc. (the "Corporation") and its stockholders the benefits of the incentive inherent in common stock ownership by Key Employees and Eligible Directors of the Corporation and its subsidiaries who will be largely responsible for the Corporation's future growth and continued financial success. The Plan is intended to furnish a component of a modern compensation program to attract, retain and stimulate capable persons by creating the incentives for maximum personal involvement in the Corporation's fortunes.

The stock options (the "Option" or "Options") and awards of restricted shares (the "Restricted Shares") and unrestricted shares of common stock offered pursuant to the Plan are a matter of separate inducement and are not in lieu of any salary or other compensation for the services of any Key Employee or Eligible Director participating in the Plan.

It is intended that an Option granted under the Plan may be either an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as the same may be amended from time to time (the "Code") (a "Qualified Option"), or an Option which is not a qualified option (a "Non-qualified Option"), but the Corporation makes no warranty as to the qualification of any Option as a Qualified Option.

2. DEFINITIONS.

Capitalized terms used herein not otherwise defined have the following meanings:

(a) Change in Control of the Company is deemed to have occurred if the executive officers of the Company as of June 28, 1991, either directly or through one of their affiliates, cease to have, in the aggregate, directly or indirectly, at least 20% of the voting power of the Company.

(b) Committee means a Committee of the Board of Directors of the Corporation, which has been appointed by the Board of Directors of the Corporation (the "Board") to administer the Plan and perform the functions set forth herein for the Committee, among other things. The Committee shall be composed of three or more members of the Board, all of whom shall be "disinterested persons" within the meaning of 17 C.F.R. § 240.16b-3 of the Regulations issued under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(c) Common Stock means the Common Stock of the Corporation, par value \$.01 per share, and any other stock or securities resulting from the adjustment thereof or substitution therefor as described in Section 16 below.

(d) Disability means the condition which results when an individual has become permanently and totally disabled within the meaning of Section 22(e)(3) of the Code.

(e) Eligible Director means a director of the Corporation who is not an officer or employee of the Corporation, a Subsidiary or a Parent (but includes a former officer or former employee thereof).

(f) Fair Market Value, as of any date means: (i) in the event the Common Stock is listed on a national securities exchange, the closing price as reported for composite transactions on that date, or, if no sales occurred on that date, then the closing price on the next preceding date on which such sales of Common Stock occurred; (ii) in the event the Common Stock is not listed on a national securities exchange, the mean between the high bid and low asked prices reported for shares of Common Stock traded over-the-counter on that date, or, if no bid and asked prices were reported on that date, then the mean between the high bid and low asked prices on the next preceding date on which such prices were reported; or (iii) in the event there are no over-the-counter prices for the Common Stock and it is not listed on a national securities exchange, the fair market value determined by the Committee either on the basis of the available price of the Common Stock or in such other manner as the Committee may deem reasonable.

(g) Key Employee means a regular employee of the Corporation, a Subsidiary or a Parent, who, is an officer or holds a managerial or other key position, as determined by the Committee, and who, in the opinion of the Committee, has

demonstrated a capacity for making a substantial contribution to the success of the business of the Corporation, a Subsidiary or a Parent.

(h) Over-Ten-Percent Shareholder means a Key Employee, who, at the time an option is to be granted to him, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation, its Parent or a Subsidiary, within the meaning of Section 422(b)(6) of the Code.

(i) Parent means a parent corporation of the Corporation within the meaning of Section 424(e) of the Code.

(j) Plan means the International Specialty Products Inc. 1991 Incentive Plan for Key Employees and Directors, as amended, as set forth in this instrument and as it may be amended from time to time.

(k) Stock Option Agreement or the Agreement means the written agreement between a Key Employee or Eligible Director and the Corporation evidencing the grant of an option under the Plan and setting forth the terms and conditions of that grant.

(l) Subsidiary means a subsidiary corporation of the Corporation within the meaning of Section 424(f) of the Code.

(m) Successor Corporation means a corporation, or a Parent or Subsidiary corporation of such corporation within the meaning of Section 424(e) or (f) of the Code, which issues or assumes a stock option in a transaction to which Section 424(a) of the Code applies.

### 3. ADMINISTRATION OF THE PLAN.

The Plan shall be administered by the Committee. The Committee shall keep minutes of its meetings. A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which there is a quorum, or acts approved in writing by the unanimous consent of its members, shall be the acts of the Committee.

The Committee is authorized, subject to the provisions of the Plan, to adopt, amend and rescind such rules and

regulations as it may deem appropriate for the administration of the Plan and to make such determinations and interpretations which it deems consistent with the Plan's provisions. The Committee's determinations and interpretations shall be final and conclusive.

In no event will a Key Employee or an Eligible Director who is subject to the reporting requirements of Regulation 17 C.F.R. § 240.16b-3 of the Exchange Act be entitled to sell or otherwise dispose of any shares acquired pursuant to any Options for a period of six (6) months from the date of the acquisition of such Options.

#### 4. OFFERS TO SELL SHARES.

During the period this Plan remains in force, Key Employees shall be eligible to receive shares of Common Stock. The Corporation, a Subsidiary, or a Parent may, pursuant to Sections 7 and 8 hereof, offer to sell shares of Common Stock to such of their respective Key Employees as shall be designated from time to time by the Committee, on the terms, conditions and restrictions set forth in this Plan and such other and additional terms, conditions and restrictions not inconsistent therewith as may be determined by the Committee. Such an offer shall not be transferable, and any attempt to transfer the offer shall be void and of no effect.

The aggregate number of shares of Common Stock which may be sold under the Plan shall not exceed one million. In the event that the number of outstanding shares of Common Stock shall be changed by reason of one or more split-ups or combinations of shares or recapitalizations or stock dividends, the number of shares which may thereafter be offered for sale under the Plan shall be appropriately adjusted as determined by the Committee so as to reflect such change or changes. No adjustment provided for in this Section 4 shall require the Corporation to issue a fractional share.

#### 5. GRANTING OF OPTIONS TO KEY EMPLOYEES.

In addition to Section 4 hereof, Key Employees shall be eligible to receive Options under the Plan. Subject to Section 16 of the Plan, the shares to be optioned under the Plan shall be shares of the Corporation's Common Stock, and may be authorized but unissued shares or shares issued and reacquired by the Corporation and held in its treasury, as

the Committee may from time to time determine. The aggregate number of shares for which Options may be granted under the Plan shall be three million.

The number of shares subject to the Plan, the number of shares subject to outstanding Options and the Option price of such outstanding Options shall be appropriately adjusted, in any reasonable manner determined by the Committee, to reflect any future stock dividends, split-ups, reorganizations, recapitalizations or other substitutions of securities of the Corporation for the present Common Stock. The Committee's adjustment shall be effective and binding for all purposes of the Plan and each Stock Option Agreement entered into under the Plan. No adjustment or substitution provided for in this Section 5 shall require the Corporation to issue a fractional share.

Except to the extent otherwise provided under the Code, to the extent that the aggregate fair market value of stock for which Qualified Options are exercisable for the first time by a Key Employee during any calendar year (under all stock option plans of the Corporation and of any Parent or Subsidiary) exceeds one hundred thousand dollars (\$100,000), such Options shall be treated as Non-qualified Options. For purposes of this limitation, (i) the fair market value of stock is determined as of the time the Option is granted and (ii) the limitation will be applied by taking into account Options in the order in which they were granted.

Shares subject to and not delivered under an Option which (i) expires or terminates or (ii) is relinquished pursuant to Section 6 of the Plan during the term of the Plan, shall again be available for Option under the Plan. If all or any portion of an Option is surrendered pursuant to Section 13 of the Plan, the shares covered thereby shall not thereafter be available for the granting of other Options under the Plan.

#### 6. ELIGIBILITY AND SELECTION OF KEY EMPLOYEES.

Shares of Common Stock may be offered for sale under the Plan only to Key Employees. The sale of shares of Common Stock to a Key Employee shall not preclude subsequent sales to the same Key Employee. Nor shall any sale of shares to a Key Employee pursuant to either Sections 7 or 8 hereof preclude sales of shares pursuant to the other Section to the same Key Employee at the same time or at any other time.

Subject to the provisions of the Plan, the Committee may, from time to time, designate the Key Employees to whom shares of Common Stock may be offered for sale, may determine whether such shares are to be offered without restrictions as to disposition pursuant to Section 7 hereof, or subject to restrictions as to disposition pursuant to Section 8 hereof, may determine the time or times when such shares shall be offered for sale, the number of such shares to be offered for sale to each Key Employee at each time and, subject to the provisions of Sections 7 and 8 hereof, the price thereof, and may prescribe the form of instruments, including, without limitation, instruments evidencing offers to sell and agreements to purchase shares under the Plan, and the form of the legend or legends, if any, to be imprinted on the stock certificates, if any, representing shares sold under the Plan.

Subject to the provisions of the Plan, the Committee shall have full authority in its discretion to determine those Key Employees to whom Options shall be granted and in each case the number of shares to be subject to such Option, the date on which it is to be granted, the Option price at which shares covered thereby may be purchased (subject, however, to Section 9 of the Plan), whether it is intended to be a Qualified Option or a Non-qualified Option, and the other terms thereof.

Each Option shall be evidenced by a Stock Option Agreement containing terms and conditions established by the Committee and consistent with the provisions of the Plan. The terms and conditions of Options may differ. If the Committee grants Options intended to be Qualified Options, the Agreement shall contain such terms and provisions as may in the Committee's judgment be necessary to render them incentive stock options within the meaning of Section 422(b) of the Code.

Any person may be granted additional Options, or may relinquish an Option or Options and be granted one or more other Options, including Options exercisable at prices lower than those of the relinquished Options, as the Committee may determine.

#### 7. PRICE AND PURCHASE OF UNRESTRICTED SHARES.

If the Committee shall designate a Key Employee as one to whom shares of Common Stock without restrictions as to

disposition may be offered, the purchase price per share of such shares shall be determined by the Committee.

A Key Employee so designated by the Committee to whom an offer is made by his employer corporation to sell shares of Common Stock without restrictions shall have a period, to be fixed by the Committee in each instance, terminating not later than sixty days after the date on which such employee was so designated, within which such employee may give written notice to such employer corporation of his election to purchase the shares offered. At or before the time of purchase of such shares, the Key Employee shall pay the full purchase price in cash or as otherwise permitted by the Committee pursuant to Section 15 hereof, and shall agree in writing that the Plan shall not be deemed to confer any right upon the employee to remain in the employ of the Corporation, a Parent or of any of its Subsidiaries.

#### 8. PRICE AND PURCHASE OF RESTRICTED SHARES.

If the Committee shall designate a Key Employee to whom Restricted Shares of Common Stock subject to restrictions as to disposition may be offered, the purchase price per share of such shares shall be determined by the Committee. Restricted Shares so offered shall be subject to the restrictions and conditions set forth in Section 10 hereof, and to any additional restrictions and conditions as the Committee shall specify at the time it so designates such employee. The Committee at such time may determine the rate or rates at which and the circumstances under which the restrictions and conditions imposed upon such shares shall lapse, which shall not, except as otherwise provided in Section 10 hereof, be prior to the expiration of one year from the date of purchase of such shares.

A Key Employee so designated by the Committee to whom an offer is made by his employer corporation to sell Restricted Shares of Common Stock shall have a period, to be fixed by the Committee in each instance, terminating not later than sixty days after the date on which such employee was so designated, within which such employee may give written notice to such employer corporation of his election to purchase the shares offered. At or before the time of purchase of such shares the employee shall pay the full purchase price in cash or as otherwise permitted by the Committee pursuant to Section 15 hereof, and shall agree in writing (a) that the Plan shall not be deemed to confer any right upon the employee to remain in the employ of the

Corporation, a Parent or of any of its Subsidiaries, and (b) that he will observe and comply with all terms, conditions and restrictions to which the shares purchased by him are subject.

9. KEY EMPLOYEE OPTION PRICE.

The Committee shall establish the Option price at the time an Option is granted to a Key Employee. The Option price shall not be less than 100% of the Fair Market Value of the shares of Common Stock subject to the Option on the day the Option is granted; provided, however, that the Option price shall be at least 110% of the Fair Market Value of the shares of Common Stock subject to any Qualified Option at the time such Qualified Option is granted, if the Qualified Option is granted to a Key Employee who is an Over-Ten-Percent Shareholder. In any event, the Option price shall not be less than the par value of the shares subject to the Option.

10. RESTRICTIONS AND CONDITIONS ON PURCHASE OF RESTRICTED SHARES.

Restricted Shares of Common Stock purchased by a Key Employee pursuant to an offer made under Section 8 hereof shall be subject to the following terms, restrictions and conditions:

(a) Except as expressly permitted in this Section 10, for a period of one year from the date of purchase and for such further period or periods as may be provided by the Committee, such shares shall not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of (other than pursuant to Section 15 hereof), and any such sale, assignment, transfer, pledge, hypothecation or other disposition shall be void and of no force and effect;

(b) The conditions and restrictions described in Section 10(a) hereof shall lapse and such shares may be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of (other than pursuant to Section 15 hereof) as follows: 20% of such shares after the expiration of one year from the date of grant; 40% of such shares after the expiration of two years from the date of grant; 60% of such shares after the expiration of three years from the date of grant; 80% of such shares after the expiration of four years from the date



of grant; and 100% of such shares after the expiration of five years from the date of grant;

(c) Notwithstanding Section 10(b) hereof, at any time after the expiration of a period of one year from the date of purchase of shares by an employee, the Committee may authorize a sale, assignment, transfer, pledge, hypothecation or other disposition of all or part of such shares free of any restrictions under the Plan if the Committee finds that in its judgment a case of hardship justifies such authorization;

(d) If a Key Employee shall die before all restrictions imposed upon the Restricted Shares purchased by him shall lapse, the Committee, in its discretion, may remove any or all of the then remaining restrictions from any or all of such shares, effective as of such time or times as the Committee shall specify; and

(e) If a Key Employee's employment shall terminate for any reason other than his transfer from the Corporation to a Subsidiary or his transfer from a Subsidiary to another Subsidiary or to the Corporation, the Corporation, if such shares were purchased from it, or a Subsidiary or a Parent, if they were purchased from it, shall have the right, but not the obligation, to repurchase, at their purchase price, all shares purchased by the employee which, at the time of termination of employment, remain subject to the restrictions set forth in this Section 10. Such right shall be exercisable within ninety (90) days immediately following such termination of employment. In case such termination is due to the employee's death or if he dies within ninety (90) days after such termination which is not due to death, such right shall be exercisable at any time after such death and prior to the expiration of ninety (90) days following receipt by the Corporation or the Subsidiary or Parent from which the Restricted Shares were purchased of written notice of the appointment of an executor or other personal representative of his estate. Restricted Shares of Common Stock with respect to which the Corporation or a Subsidiary or Parent shall have failed to exercise its right to repurchase shall remain subject to the restrictions imposed by this Section 10.

#### 11. EXERCISE OF OPTIONS BY KEY EMPLOYEES.

Subject to Section 16 hereof, and except as otherwise provided in this Section 11, no Option to purchase shares shall be exercisable by a Key Employee for a period of one year from the date of grant. Thereafter, subject to Section 16 hereof, and except as otherwise provided in this Section 11, shares originally subject to the Option may be purchased as follows: 20% of such shares after the expiration of one year from the date of grant; 40% of such shares after the expiration of two years from the date of grant; 60% of such shares after the expiration of three years from the date of grant; 80% of such shares after the expiration of four years from the date of grant; 100% of such shares after the expiration of five years from the date of grant; provided, however, that any Qualified Option granted under the Plan to an Over-Ten-Percent Shareholder shall be exercisable, as to 100% of the shares subject thereto, after the expiration of four years and ten months from the date of grant, and provided further that the Committee may, in its discretion, on a case-by-case basis, grant Options exercisable by a Key Employee, in whole or in part, upon, and amend each outstanding Option exercisable by a Key Employee to allow the exercise of such Option, in whole or in part, upon, a Change in Control of the Corporation. No Option granted under the Plan to a Key Employee shall be exercisable as to all or any portion of the shares subject to such Option after the ninth anniversary of the date of grant of such Option, except that no Qualified Option granted to a Key Employee who is an Over-Ten-Percent Shareholder shall be exercisable more than five years after the date of grant.

#### 12. LIMITATION ON EXERCISE OF OPTIONS.

In addition to the conditions on exercise of Options described in Section 14 hereof, and notwithstanding any other provision of the Plan, the Committee, in its discretion and on the terms and conditions set forth in this Section 12 and such other terms and conditions as it deems appropriate, may prohibit exercise of any or all Options to purchase shares of Common Stock. In the event that the Committee prohibits the exercise of any Option, the Committee shall authorize payment of, and the Corporation shall pay, an amount equal to the excess of Fair Market Value of the shares covered by such Options over the option price of such shares. Such amount shall be paid in (a) cash, or (b) any combination of cash and Common Stock, with the form of payment to be at the election of the Committee;

provided, however, in every instance the Committee shall determine that such payment is consistent with the purposes set forth in Section 1 of the Plan.

### 13. SURRENDER AND REPURCHASE OF OPTIONS.

A Stock Option Agreement may provide that in the event of any tender or exchange offer (other than an offer by the Corporation) for shares of Common Stock, the optionee will have the unconditional right (a "Limited Right") to surrender all or any portion of such Option (regardless of the extent to which such Option is then exercisable) during the 30-day period following the date shares are first purchased or exchanged pursuant to such offer (but without regard to the number of shares so purchased) and to receive in consideration of such surrender an amount equal to the excess of the Fair Market Value on the date of surrender of the shares covered by the surrendered portion of the Option over the Option price of such shares. Such amount shall be paid in (a) cash, (b) Common Stock, or (c) any combination of cash and Common Stock, with the form of payment to be at the election of the Committee; provided, however, that in every instance the Committee shall determine that such payment is consistent with the purposes set forth in Section 1 of the Plan. For the purposes of Limited Rights, the term "Fair Market Value on the date of surrender" shall mean the average of the Fair Market Value of the shares of Common Stock during the period commencing on the date the bidder publicly announced its intention to pay the price which was initially paid for, or the exchange ratio which was initially used for, such shares first purchased or exchanged and ending on the date on which such shares were first purchased or exchanged, inclusive.

### 14. CONDITIONS OF EXERCISE OF OPTIONS.

(a) Options granted under the Plan shall not be transferable by the optionee except by will, or if the optionee dies intestate, by laws of descent and distribution of the state of the optionee's domicile at the time of his death. During an optionee's lifetime, Options granted under the Plan are exercisable only by the optionee.

(b) Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend, replace or renew outstanding Options granted under the Plan, or accept the surrender of outstanding Options (to the extent they have not yet been exercised) and grant new

options in substitution for them. Notwithstanding the foregoing, however, no modification of an Option shall adversely alter or impair any rights or obligations under any Option granted under the Plan without the affected optionee's consent.

(c) If the employment of an optionee by the Corporation, a Parent, a Subsidiary or a Successor Corporation shall terminate for any reason other than his death or Disability, then each Option held by that optionee on the date of such termination or the date on which he ceases to be a director, as the case may be, to the extent then exercisable, may be exercised at any time prior to the earlier of (i) its expiration date or (ii) the expiration of a ninety (90) day period following the date of termination of employment. An Option shall not be affected by any change in the duties or position of an optionee (including transfer to or from a Parent or Subsidiary) so long as he continues in the employ of the Corporation or a Subsidiary or Parent or a Successor Corporation. If the employment of an optionee by the Corporation, a Parent, a Subsidiary or a Successor Corporation, shall terminate by reason of his death or Disability, or, in the case of an optionee who is a director but not an employee of the Corporation, a Parent, a Subsidiary or a Successor Corporation, and such optionee ceases to be a director of the Corporation, a Parent, a Subsidiary or a Successor Corporation by reason of his death or Disability, then each Option held by the optionee on the date of his death or Disability, to the extent then exercisable, may be exercised, at any time prior to the earlier of (i) its expiration date or (ii) the expiration of one year following the date of the optionee's death or Disability, including the date death or Disability occurs. In the event of an optionee's death, his Options shall be exercisable, to the extent otherwise provided in the Plan, by the executor or by any other person who may be empowered to do so under the optionee's will. If the optionee has failed to make a testamentary disposition of his Options or dies intestate, his Options shall be exercisable by his legal representative.

(d) Treatment of Options upon termination of service of an Eligible Director shall be governed by Section 27 hereof.

(e) Each Option shall be confirmed by a Stock Option Agreement which shall be executed by the Corporation and by the person to whom the Option is granted.

(f) To the extent that an Option is not exercised within the period of time prescribed by the Plan and the Stock Option Agreement confirming the Option, the Option shall lapse and all rights of the optionee with respect to it shall terminate.

(g) Nothing in the Plan or in the Stock Option Agreement shall confer on any employee any right to continue in the employ of the Corporation or any Parent or Subsidiary or Successor Corporation; affect the right of the Corporation or any Parent or Subsidiary or a Successor Corporation to terminate his employment at any time; or be deemed a waiver or modification of any provision contained in any agreement between the employee and the Corporation or any such Parent or Subsidiary. The Stock Option Agreements may contain such provisions as the Committee shall approve with reference to the effect of approved leaves of absence.

#### 15. PAYMENT FOR SHARES.

Unless otherwise permitted by the Committee, payment for any shares of Common Stock (other than for payment of shares of Common Stock purchased upon the exercise of an Option as described below) sold under the Plan shall be in cash and shall be made on or prior to the date on which the shares are sold to the Key Employee. The Committee, in its discretion, may permit part payment for the shares, in an amount not exceeding seventy-five percent of the purchase price thereof, by a promissory note or notes of the Key Employee. In no event shall the portion of the purchase price payable in cash be less than the par value of the Common Stock sold to the Key Employee. Any such promissory note shall bear interest at a rate determined by the Committee, but not less than the appropriate applicable federal rate, and shall be payable not more than six years after the date on which the shares are purchased. Any shares for which part payment is made by any such note or notes shall be pledged with the Corporation, or with the Subsidiary or Parent by which the shares are sold, as security for the payment, when due, of interest on and the principal of such note or notes. The Key Employee or Eligible Director shall not possess any rights of a stockholder with respect to any shares sold to him under the Plan prior to the date on which such shares are issued in or transferred into his name or the name of his nominee.

Payment for shares of Common Stock purchased upon exercise of an Option granted under the Plan shall be made

(except in the case of a surrender pursuant to Section 13) to the Corporation in cash (including check, bank draft, money order or wire transfer), or by delivering shares of Common Stock already owned by the Option holder and having an aggregate value (based on the Fair Market Value of the Common Stock so delivered as of the day preceding the date of delivery) equal to the Option price of the shares purchased, or by delivering to the Corporation a combination of such shares and cash having an aggregate value (based on the Fair Market Value of the Common Stock so delivered as of the day preceding the date of delivery) equal to the Option price of the shares purchased. A Key Employee or Eligible Director to whom an Option is granted shall not be deemed the holder of any shares subject to the Option or have any rights of a shareholder with respect thereto until the shares are delivered to him.

#### 16. SOURCE AND NUMBER OF SHARES AND OPTIONS.

As determined by the Board from time to time, shares of Common Stock sold by the Corporation to its Key Employees shall be either authorized but unissued shares or shares acquired by the Corporation and held in its treasury. Shares sold by a Subsidiary or a Parent to its Key Employees shall be acquired by such subsidiary from the Corporation. Any Restricted Shares of Common Stock repurchased by the Corporation or any Subsidiary or Parent pursuant to the terms of Section 10 hereof shall again become available for sale pursuant to the terms of this Plan.

Upon the effective date of any merger or consolidation of the Corporation with or into another corporation (other than a merger or consolidation in which the Corporation is the surviving corporation and which does not result in any reclassification or reorganization of the then outstanding shares of Common Stock) and upon the effective date of any sale of all or substantially all of the assets of the Corporation to any other entity (a "Terminating Event"), the Plan and any unexercised Options granted under the Plan shall terminate unless a provision shall be made in writing in connection with such Terminating Event for the continuance of the Plan and, if the Corporation is not the surviving corporation, for the assumption of such unexercised Options by a successor employer or parent or subsidiary thereof or for the substitution for such unexercised Options of new Options covering shares of such successor with appropriate adjustments as to number, price and kind of securities or property subject to such new

Options. In such event, the Plan and the unexercised Options theretofore granted or the new Options substituted therefor shall continue in the manner and under the terms provided in the Plan. Prior to any such termination of the Plan, upon the effective date of any Terminating Event in which provision is not made for the continuance of the Plan and for the assumption or substitution of Options, the Committee may in its discretion permit each Key Employee to accelerate the time at which his Option may be exercised and to purchase the full number of shares under his Option which he would otherwise have been entitled to purchase during the remaining term of such Option.

The provisions contained in the preceding sentence shall be inapplicable to an Option granted within six (6) months before the occurrence of a transaction described above if the holder of such Option is subject to the reporting requirements of Regulation 17 C.F.R. § 240.16b-3 of the Exchange Act.

#### 17. AMENDMENT, SUSPENSION OR TERMINATION OF THE PLAN.

The Board may at any time terminate or from time to time suspend or modify the Plan, provided that no modification without the approval of stockholders shall (a) increase the maximum number of shares which may be sold under the Plan, (b) permit the purchase of any shares unless payment of the purchase price pursuant to Section 15 hereof is made at the time of purchase and (c) decrease the minimum price at which shares may be sold.

Similarly, (except as provided in or permitted by Section 16 hereof), the Board may not make any alteration which would affect an Option previously granted or, without the approval of the shareholders of the Corporation, make any alteration which would (except as provided in Section 16 hereof) (a) increase the aggregate number of shares for which Options may be granted; (b) decrease the minimum Option price as set forth in Section 9 of the Plan; (c) extend the term of the Plan or the maximum period during which any Option may be exercised; or (d) change the class of employees eligible to receive Options. The Board shall be authorized to amend the Plan and the Options granted thereunder to qualify as incentive stock options within the meaning of Section 422 of the Code. Notwithstanding the

foregoing, amendment of the Plan relating to Eligible Director Participants shall be governed by Section 28 hereof.

**18. COMPLIANCE WITH LAW AND OTHER CONDITIONS.**

The Plan, together with all Options and Stock Option Agreements under this Plan, shall be governed by the laws of the State of New Jersey, to the extent not superseded by the laws of the United States. No shares shall be issued, sold or delivered pursuant to the exercise or surrender of any Option granted under the Plan prior to (a) any registration or other qualification of such shares under any state or federal law or regulation which the Committee shall, in its absolute discretion upon the advice of counsel, deem necessary or advisable, and (b) the admission of such shares to listing on any stock exchange on which the stock may then be listed free of any conditions not acceptable to the Committee.

**19. GOOD-FAITH ATTEMPTS.**

As to Qualified Options granted under the Plan, to the extent consistent with Section 422(c)(1) of the Code and Regulations issued by the Secretary of the Treasury for incentive stock options, (i) the requirement set forth in Section 9 of the Plan that the Option price of any Option granted under the Plan be not less than 100% of the Fair Market Value of the Common Stock subject to the option at the time if it is granted to a Key Employee other than an Over-Ten-Percent Shareholder, and not less than 110% of the Fair Market Value of the Common Stock if granted to a Key Employee who is an Over-Ten-Percent Shareholder, and (ii) the limitation on the aggregate Fair Market Value of the Common Stock for which a Key Employee may be granted Qualified Options as set forth in Section 5 of the Plan, shall be considered to have been met if the Committee has made a good-faith attempt to meet the requirements of Section 422(b)(4) or Sections 422(b)(6) and 422(c)(5) of the Code or Section 422(d) of the Code, as applicable, and such requirements are considered to have been met pursuant to Section 422(c)(1) of the Code.

**20. CONSTRUCTION.**

It is intended that all Qualified Options granted under the Plan shall constitute "incentive stock options" under Section 422 of the Code. To that end, the Plan and all



Stock Option Agreements entered into pursuant to it shall be construed and interpreted so that all Qualified Options granted under the Plan constitute "incentive stock options" within the meaning of Section 422 of the Code, unless the terms and provisions of this instrument clearly and unequivocally require a contrary interpretation or construction.

**21. EFFECTIVE DATE AND DURATION.**

The Plan shall become effective on the date on which it is approved by a majority of votes cast on the proposal as to the Plan by the shareholders of the Corporation entitled to vote thereon, provided that the total vote cast on the proposal represents over 50% in interest of all securities entitled to vote on the proposal. No Options may be granted under the Plan after the ninth anniversary of the effective date of the Plan.

**22. WITHHOLDING TAXES.**

The Corporation may require a Key Employee receiving shares of Common Stock hereunder, exercising a Non-qualified Option granted hereunder, or disposing of shares of Common Stock acquired pursuant to the exercise of a Qualified Option in a disqualifying disposition (within the meaning of Section 421(b) of the Code), to reimburse the corporation that employs such employee for any taxes required by any government to be withheld or otherwise deducted and paid by such corporation in respect of the issuance or disposition of such shares of Common Stock. In lieu thereof, the corporation that employs such employee shall have the right to withhold the amount of such taxes from any other sums due or to become due from such corporation to the employee upon such terms and conditions as the Board of Directors shall prescribe. The corporation that employs such employee may, in its discretion, hold the stock certificate to which such employee is entitled upon the exercise of an Option as security for the payment of such withholding tax liability, until cash sufficient to pay that liability has been accumulated.

Subject to the consent of the Committee, an employee may make an irrevocable election to have shares of Common Stock otherwise issuable withheld, tender back to the Company shares of Common Stock received pursuant to an award or deliver to the Corporation previously acquired shares of Common Stock having a fair market value sufficient to

satisfy all or part of the employee's estimated tax obligations associated with the transaction. Such election must be made by a Key Employee prior to the date on which the relevant tax obligation arises. The Committee may disapprove of any election and may limit, suspend or terminate the right to make such elections.

In addition, at any time that the Corporation becomes subject to a withholding obligation under applicable law with respect to the exercise of a Non-qualified Option (the "Tax Date"), except as set forth below, a holder of a Non-qualified Option may elect to satisfy, in whole or in part, the holder's related personal tax liabilities (an "Election") by (i) directing the Corporation to withhold from shares of Common Stock issuable in the related exercise either a specified number of shares or shares of Common Stock having a specified value (in each case not in excess of the related personal tax liabilities), (ii) tendering shares previously issued pursuant to the exercise of an Option or other shares of Common Stock owned by the holder or (iii) any combination of (i) and (ii). An Election shall be irrevocable. The withheld shares of Common Stock and other shares tendered in payment should be valued at their Fair Market Value on the Tax Date. The Committee may disapprove of any Election, suspend or terminate the right to make Elections or provide that the right to make Elections shall not apply to particular shares of Common Stock or exercises. If a holder is a person subject to Section 16 of the Exchange Act then (1) any Election by such holder must be made (i) at least six months prior to the relevant Tax Date or (ii) on or prior to the relevant Tax Date and during a period that begins on the third business day following the date of release of publication of the Corporation's quarterly or annual summary statements of sales and earnings and that ends on the twelfth business day following such date and (2) the Election may not be made with respect to an exercise, or the withholding obligation arising thereon, if the relevant Option was granted six months or less prior to the date of Election. The Committee may impose any other conditions or restrictions on the right to make an Election as it shall deem appropriate.

### 23. MISCELLANEOUS.

No member of the Board or of the Board of Directors of any Subsidiary or any officer or employee of the Corporation or of any Subsidiary shall be personally liable for any act or omission in good faith in connection with the Plan.

The provisions of the Plan, and the restrictions and conditions set forth herein, shall be binding upon the personal representatives of any Key Employee or Eligible Director who purchases shares under the Plan, including the executors, administrators or trustees of his estate and any receiver, trustee in bankruptcy or representative of the creditors of such employee.

All funds received by the Corporation, a Subsidiary or a Parent may be used for any corporate purpose.

The Plan and the Corporation's, a Subsidiary's or a Parent's obligation to sell and deliver shares of the Corporation's Common Stock, or to issue Options under the Plan shall be subject to all applicable laws, rules and regulations and to the approval of any governmental authority which the Corporation, in its sole discretion, determines to be necessary or desirable in connection with the Plan and the authorization, issuance, sale or delivery of such stock or Option.

Any shares of Common Stock purchased under the Plan by an employee and transferred at the request of the employee, into the name of a bank, broker or other fiduciary nominee shall remain subject to the provisions of the Plan.

With respect to persons subject to Regulation 17 C.F.R. § 240.16b-3 of the Exchange Act, transactions under the Plan are intended to comply with all applicable conditions of such regulation or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

#### 24. STOCK OPTION GRANTS TO ELIGIBLE DIRECTORS.

Each person who was an Eligible Director on July 14, 1992 and each person who becomes an Eligible Director thereafter shall automatically be granted, as of July 14, 1992 or the date such person becomes an Eligible Director, as the case may be, a Non-qualified Option to purchase 5,000 shares of Common Stock of the Corporation (the "Initial Option"). Upon each anniversary of an Eligible Director's grant of an Initial Option (and provided that such Eligible Director has continued to serve in such capacity through such anniversary), such Eligible Director shall automatically be granted an additional Non-qualified Option

to purchase 2,500 shares of Common Stock of the Corporation (the "Additional Option"). The purchase price of the shares of Common Stock covered by the Non-qualified Options granted pursuant to this Section 24 shall be the Fair Market Value of such shares on the date of grant.

**25. ELIGIBLE DIRECTOR'S EXERCISE OF OPTIONS.**

Subject to Section 27 hereof, a Non-qualified Option granted pursuant to Section 24 hereof shall, to the extent not exercised, expire on the ninth anniversary of the date of grant. An Initial Option granted to any Eligible Director (i) shall not be exercisable prior to the first anniversary of the date of grant, (ii) shall be exercisable with respect to one-third (1/3) of the aggregate number of shares of Common Stock initially subject to the Initial Option during the 12-month period commencing on the first anniversary of the date of grant, (iii) shall be exercisable with respect to two-thirds (2/3) of the aggregate number of shares of Common Stock initially subject to the Initial Option during the 12-month period commencing on the second anniversary of the date of grant and (iv) shall be exercisable with respect to the aggregate number of shares of Common Stock initially subject to the Initial Option on and after the third anniversary of the date of grant. An Additional Option granted to any Eligible Director shall be exercisable with respect to one-hundred per cent (100%) of the aggregate number of shares of Common Stock initially subject to such Additional Option on and after the first anniversary of the date of grant.

**26. ELIGIBLE DIRECTOR'S INELIGIBILITY FOR OTHER GRANTS.**

Any Eligible Director who is eligible to receive an Option pursuant to Section 24 hereof shall be ineligible to receive any other grant or award under any other Section of this Plan.

**27. ELIGIBLE DIRECTOR'S TERMINATION.**

If an Eligible Director who has been granted Options pursuant to Section 24 hereof shall cease to be a director of the Corporation for any reason then each Option held by such Eligible Director on the date of such cessation, to the extent then exercisable, may be exercised at any time prior to the earlier of (i) its expiration date or (ii) the expiration of a sixty (60) day period following the date of such cessation.

**28. AMENDMENT OF ELIGIBLE DIRECTOR PROVISIONS.**

Sections 24 through 28 shall not be amended more than one time in any six month period, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules promulgated thereunder.

garcia/appendix.a

**EXHIBIT 10.12**

# INTERNATIONAL SPECIALTY PRODUCTS

1361 ALPS ROAD  
WAYNE, NEW JERSEY 07470

SAMUEL J. KEYMAN  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

July 30, 1993

Mr. Carl R. Eckardt  
26 Burch Drive  
Morris Plains, NJ 07950

Dear Carl:

I am pleased to confirm to you the establishment of a retirement benefit which will provide for you at age 67, a \$200,000 annuity which will be comprised of two pieces (1) the Non-Qualified Supplemental Employee Retirement Plan (NQSERP) in which you are currently a participant, and (2) a supplemental retirement benefit representing the difference between the \$200,000 per year annuity and the current NQSERP.

1. The supplemental retirement benefit will vest at 20% a year over a five-year period beginning when you reach age 63. An example of how this would be computed is contained in the illustrative table below which combines the current NQSERP and the supplemental benefit. The table assumes that your salary at age 63, 64 and 65 for the purpose of computing your current NQSERP increases 4% a year for those years, until you are 100% vested in the NQSERP.

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
<u>Age</u>	<u>\$ CAP</u>	<u>NQSERP</u>	<u>RETIREMENT BENEFIT</u>	<u>SUPP. BNFT VESTED %</u>	<u>VESTED SUPP RETIREMENT BENEFIT</u>
63	\$200,000	\$46,689	\$153,311	20.00	\$ 30,662
64	200,000	58,268	141,732	40.00	56,693
65	200,000	72,141	127,859	60.00	76,715
66	200,000	72,141	127,859	80.00	102,287
67	200,000	72,141	127,859	100.00	127,859

a) The supplemental retirement benefit will vest in accordance with the percent set forth in column 5 above, at the age noted in column 1.

Mr. Carl Eckardt  
Page Two

b) Notwithstanding the clause above, and specifically in reference to the supplemental retirement benefit:

(i) Should you voluntarily terminate your employment with GAF Corporation prior to March 19, 1994, or should you die at any time, whether before or after March 19, 1994, without a surviving spouse, no supplemental retirement benefit will be payable to you or your estate, as the case may be.

(ii) Should you die after March 19, 1994, but prior to the termination of your employment with GAF, and if you die leaving a surviving spouse, your spouse will be entitled to receive for her life an annual payment of the portion of the supplemental retirement benefit in which you are vested (column 6) on the date of your death.

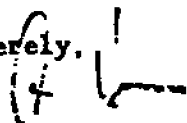
c) Notwithstanding clause (a) above, in the event during your employment with GAF you are permanently and totally disabled (such disability to be determined in accordance with the then existing LTD policy) or your employment with GAF is terminated involuntarily other than for "cause" (as defined in clause (d) below), subject to clause (b) (i) above, you will be entitled to receive payment of the portion of the supplemental retirement benefit in which you are vested at the date of the onset of such permanent disability or the date of the involuntary termination, in the event such permanent and total disability or involuntary termination occurs after March 19, 1994.

d) Notwithstanding clause (a) above, if your employment with GAF is terminated for cause then, if such termination occurs after March 19, 1994, GAF in its sole discretion may declare all or any portion (whether vested or unvested) of the supplemental retirement benefit forfeited. For purposes of this Agreement, "cause" will mean (x) your conviction of a crime involving moral turpitude or (y) in carrying out your duties on behalf of GAF, your commission of an act of willful or gross misconduct.

2. Amounts due to you and/or your spouse under Section 1 will be paid to you, in the sole discretion of GAF, in annual, semi-annual, quarterly or monthly installments commencing (except as provided in paragraph 1 c above) on the first day of the month following the month in which your employment with GAF terminates.

3. You understand that GAF will have no obligation to fund the supplemental retirement benefit in order to make any payments under it.

Sincerely,



Samuel J. Heyman



**EXHIBIT 10.13**

### Stock Appreciation Right

GAF Corporation, a Delaware corporation ("GAF"), hereby grants Mark A. Buckstein (the "Grantee") the right to receive ("SAR") an amount in cash based upon the appreciation in value of 6,255 shares of Common Stock (the "Shares") of GAF Corporation ("GAF"), which after issuance would have constituted 1/3% of 1% of the outstanding shares of Common Stock of GAF as of August 1, 1993. The SAR shall be on the following terms:

1. Capitalized terms used herein which are not defined elsewhere herein shall have the following meanings:

a) Appreciation Value means an amount equal to Book Value determined as of April 4, 1993 multiplied by the number of Shares, plus interest on such product from August 1, 1993 at the rate of 5.75% per annum.

b) Book Value means, as of any date of determination, the book value per share of Common Stock as of that date determined in accordance with generally accepted accounting principles, but without giving effect to the reversal, if any, of any or all of the reserve for income taxes payable established by GAF in connection with and as a result of the transfer of the surfactants business of GAF Chemicals Corporation, an indirect subsidiary of the Company, to Rhone-Poulenc Specialty Chemicals, L.P. and appearing on the Company's consolidated balance sheet for the quarter ended March 31, 1990, and after other charges, such as declaration of dividends on any capital stock of GAF or payments with respect to repurchases by GAF of any capital stock from holders thereof, but excluding (1) any amounts reflecting the liquidation preferences of any outstanding preferred stock of GAF, (2) any reductions resulting from purchases of GAF's capital stock by persons who participated in promoting the "Acquisition" referred to in the Prospectus dated March 24, 1989 relative to the Common Stock and certain other securities of GAF (predecessor cost basis adjustment), (3) any charges relating to amortization of goodwill and other intangibles arising from the Acquisition and related transactions, (4) that portion of depreciation charges attributable to the write-up of assets as result of the application of purchase accounting in connection with the Acquisition, and (5) any charges relating to amortization of deferred financing costs and expenses incurred in connection with the Acquisition; provided that (i) any adjustments to Book Value shall include the tax effects, if any, associated therewith, (ii) any charges specified in subclauses (3), (4) and (5) above, relating to a business or assets of GAF or any of its subsidiaries, which charges shall have been incurred on

or after the date of the Acquisition but which, because of the operation of said subclauses (3), (4) and/or (5), shall not theretofore have been included in the calculation of Book Value, shall be so included following a transaction involving such business or assets which, in accordance with the next sentence, is deemed a sale or disposition thereof, and (iii) for purposes of clause (ii), an asset, liability or charge not exclusively attributable to the specific business or assets deemed to have been sold or otherwise disposed of shall, if attributable to such business or assets and to other businesses or assets, be deemed to relate to the business or assets sold or otherwise disposed of and to such other businesses or assets pro rata based on relative business and assets values immediately following consummation of the Acquisition; and provided further that, in calculating Book Value, the Shares and, if any other stock appreciation rights issued by GAF based upon appreciation in value of shares of Common Stock are outstanding at the time of calculation, the shares of Common Stock upon which such appreciation in value is based shall be deemed outstanding. The Board of Directors of GAF shall determine (i) whether a transaction involving a business or assets of GAF or any of its subsidiaries is a sale or disposition for purposes of the definition and calculation of Book Value and (ii) if such transaction is a sale or disposition, the amount of the gain or loss thereon. The gain or loss on any sale or disposition shall be the actual economic benefit to GAF from such transaction, as determined by the Board of Directors.

c) Common Stock means the Common Stock, \$.001 par value, of GAF.

d) Current Value means an amount equal to Book Value as of the date of determination multiplied by the number of Shares, increased by an amount equal to any cash dividends or distributions which would have been paid on the Shares from August 1, 1993 through the date of determination if they had been outstanding.

e) Exercise Value means (i) zero if the Grantee's employment with GAF and its subsidiaries is terminated prior to February 1, 1996; (ii) 40% of the Spread, if the Grantee's employment is terminated on or after February 1, 1996 but prior to August 1, 1996; (iii) 60% of the Spread if the Grantee's employment is terminated on or after August 1, 1996 but prior to August 1, 1997; (iv) 80% of the Spread if the Grantee's employment is terminated on or after August 1, 1997 but prior to August 1, 1998; and (v) 100% of the Spread if the Grantee's employment is terminated on or after August 1, 1998.

f) Market Price as of any date means the average of the daily market prices per Share for the 15 consecutive business

days immediately preceding such date. The daily market price for each such business day shall be (i) the last sale price on such day on the principal stock exchange on which the Shares are then listed or admitted to trading, (ii) if no sale takes place on such day on any such exchange, the average of the last reported closing bid and asked prices on such day as officially quoted on any such exchange, (iii) if the Shares are not then listed or admitted to trading on any stock exchange, the average of the last reported closing bid and asked prices on such day in the over-the-counter market, as furnished by the National Association of Securities Dealers Automatic Quotation System or the National Quotation Bureau, Inc., (iv) if neither such corporation at the time is engaged in the business of reporting such prices, as furnished by any similar firm then engaged in such business, or (v) if there is no such firm, as furnished by any member of the NASD selected by the Company.

g) The Restricted Period shall mean the seven-year period commencing August 1, 1993 and ending July 31, 2000.

h) The Spread as of any date of determination means the excess, if any, of the Current Value over the Appreciation Value.

2. If, during the Restricted Period, the Grantee's employment with GAF and its subsidiaries terminates as a result of his death or permanent disability, GAF shall be required to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value based upon Book Value determined as of the end of the calendar quarter immediately preceding the Grantee's death or permanent disability; provided that the Grantee or GAF may elect to have the Current Value based upon Book Value as of the end of calendar year in which death or permanent disability occurs. The Grantee will be deemed to be permanently disabled if he becomes physically or mentally incapacitated or disabled to the extent that he is unable to perform for GAF or its subsidiaries substantially the same services as he performed prior to incurring such incapacity or disability, and the Grantee's incapacity or disability continues for a period of six consecutive months; provided, however, that if at the time of disability Grantee is a party to an employment agreement with GAF or any of its subsidiaries which contains a definition of disability which is inconsistent with the provisions hereof, the definition contained in that employment agreement shall govern for purposes of this Agreement. GAF, at its option and expense, shall be entitled to retain a physician reasonably acceptable to the Grantee to confirm the existence of the incapacity or disability, and the determination of that physician shall be binding upon the Company and the Grantee.

3. If, during the Restricted Period, the Grantee leaves the employ of GAF and its subsidiaries other than as a result of his death or permanent disability, GAF shall have the right, exercisable by notice to the Grantee within 30 days after termination of employment, to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value based upon Book Value determined as of the last day of the calendar quarter next preceding the calendar quarter in which termination of employment occurs.

4. If GAF fails to exercise its right to repurchase the SAR as provided in paragraph 3, the Grantee shall have the right, exercisable by notice to GAF within 60 days after termination of employment, to require GAF to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value based upon the lowest amount of Book Value calculated as of the last day of the following calendar quarters: the calendar quarter (the "Quarter") immediately preceding the calendar quarter in which the termination of employment occurred and the first, second and third calendar quarters immediately succeeding the Quarter.

5. The Grantee shall have the right at any time after the end of the Restricted Period, exercisable by notice to GAF, to require GAF to repurchase the SAR for an amount in cash equal to the Exercise Price, with the Current Value based upon the lowest amount of Book Value calculated as of the last day of the following calendar quarters: the calendar quarter (the "Put Quarter") immediately preceding the calendar quarter in which the Grantee elects to have the SAR repurchased and the first, second and third calendar quarters immediately succeeding the Put Quarter; provided that, if securities of the same class as the Shares are then registered under the Securities Exchange Act of 1934, as amended, Market Price shall be substituted for Book Value in calculating Current Value.

6. The closing of any repurchase by GAF of the SAR shall be held at the principal offices of GAF within one year after the event giving rise to the repurchase obligation. The purchase price shall be paid by delivery to Grantee of a certified or official bank check. In the event a repurchase of the SAR pursuant to Section 2, 3, 4 or 5 hereof shall be prohibited, or would cause a default, under the terms of any institutional credit agreement, indenture or other like instrument with respect to borrowed money to which GAF or any of its affiliates may be a party or be bound, in each case as the same may be amended from time to time, or shall be prohibited by law, the rights and obligations of the Grantee and GAF pursuant to Section 2, 3, 4 or 5 hereof, as the case may be, shall be suspended until the prohibition lapses or is waived and no default would be caused. If the Board of Directors of GAF shall determine in good faith that, in light of the financial condition or financial resources of the Company, it would be imprudent for the Company to repurchase the SAR pursuant to Section 4 or 5, the

rights and obligations of the Grantee and GAF pursuant to Section 4 or 5 shall be suspended until the Board of Directors determines that such repurchase would be prudent in such light. Upon the lapse or waiver of the restrictions or upon such determination that the purchase would be prudent, as the case may be, the purchase price to be paid by GAF for the SAR shall be determined as of the last day of the calendar quarter in which such restrictions are waived or lapse or such determination occurs, and the purchase price shall be paid with interest thereon at the rate of 5.75% per annum from the first anniversary of the event giving rise to the repurchase obligation to the date of payment.

7. At least 10 days prior to the consummation during the Restricted Period of any sale or transfer by any member of the Heyman Group to any unrelated third party of securities of the same class as Shares, GAF shall cause those members of the Heyman Group (the "Selling Member") to deliver to the Grantee a written notice (a "Sale Notice"), which shall fully disclose the identity of the prospective transferee and the terms and conditions of the proposed sale. The Grantee may elect to participate in the contemplated sale by delivering written notice to the Selling Member within 7 days of receipt of such Sale Notice. If the Grantee elects to sell in the contemplated sale, he will be entitled to sell in the contemplated sale or, if GAF elects, to GAF or to GAF's designee, for an amount per Share equal to the sales price per Share received by the Selling Member minus the Appreciation Value per Share and, to the extent applicable, on the same terms applicable to the Selling Member, that portion of the SAR bearing the same relationship to the number of Shares represented hereby of the class being transferred as the amounts to be so transferred by the Selling Member bear to the Heyman Group's aggregate holdings of securities of such class. This paragraph 7 shall apply to any sales or transfers of Shares, whether or not made pursuant to an effective registration statement in accordance with the Securities Act of 1933, and shall not apply to any sale of securities of the same class as Shares in brokerage transactions on a national securities exchange or in the over-the-counter market. The term "Heyman Group" shall mean Samuel J. Heyman, Heyman Holdings Associates Limited Partnership, or any other person or entity controlled by or under common control with Mr. Heyman.

8. The Shares shall include any securities which would have been received by the Grantee, if the Shares had been outstanding, in any split-up, recapitalization, combination, dividend, distribution, merger or exchange of or relating to the Common Stock of GAF occurring after August 1, 1993, including any securities of a subsidiary of GAF distributed to stockholders of GAF, and if any such event shall occur the Board of Directors of GAF shall make such adjustments in Book Value, Appreciation Value and Current Value as they determine in good faith are appropriate.

9. The Grantee may not sell, pledge, give, transfer, assign, encumber or dispose of the SAR (or any interest herein or therein) except by will or intestacy.

10. All determinations by the Board of Directors of GAF hereunder shall be made in good faith and shall be binding and conclusive.

11. (a) All notices or other communications hereunder shall be given in writing and shall be deemed duly given and received on the third full business day following the date of mailing by registered or certified mail, return receipt requested, or when delivered personally, as follows:

(i) if to GAF:

GAF Corporation  
1361 Alps Road  
Wayne, New Jersey 07470  
Attention: Chief Executive Officer

or at such other place as GAF shall have designated by notice as herein provided to Grantee;

(ii) if to Grantee, at his last address appearing in GAF's records or at such other place as Grantee shall have designated by notice as herein provided to GAF.

(b) This writing constitutes the entire agreement of the parties hereto with respect to its subject matter (including with respect to the acquisition, retention or disposition of any security of GAF or any right or interest therein), supersedes all agreements among the parties with respect to the subject matter hereof (including paragraph 4 of the Agreement dated June 10, 1993 among GAF, International Specialty Products Inc. and Grantee) and may not be modified or amended except by a written agreement signed by GAF (following the specific approval of such modification or amendment by GAF's Board of Directors) and Grantee. This Agreement, shall be binding upon and inure to the benefit of GAF, its successors and assigns, and the Grantee and his heirs and personal representatives.

(c) If any provision of this Agreement shall be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such invalid or unenforceable provision were not contained in this Agreement.

(d) This Agreement shall be deemed to be a contract under the laws of the State of New York and for all purposes shall be

construed and enforced in accordance with the internal laws of that state without regard to principles of conflicts of law.


IN WITNESS WHEREOF, the undersigned has executed this instrument as of the 31st day of December, 1993.

GAF CORPORATION

By: 

Samuel J. Heyman  
Chairman of the Board  
and Chief Executive  
Officer

AGREED AND ACCEPTED:

  
Mark A. Buckstein

SAR:MAB



**EXHIBIT 10.14**

### Stock Appreciation Right

GAF Corporation, a Delaware corporation ("GAF"), hereby grants James P. Rogers (the "Grantee") the right to receive ("SAR") an amount in cash based upon the appreciation in value of 9,319 shares of Common Stock (the "Shares") of GAF Corporation ("GAF"). The SAR shall be on the following terms:

1. Capitalized terms used herein which are not defined elsewhere herein shall have the following meanings:

a) Appreciation Value means an amount equal to Book Value determined as of October 3, 1993 or December 31, 1993, whichever is lower, multiplied by the number of Shares, plus interest on such product from November 1, 1993 at the rate of 5.75% per annum.

b) Book Value means, as of any date of determination, the book value per share of Common Stock as of that date determined in accordance with generally accepted accounting principles, but without giving effect to the reversal, if any, of any or all of the reserve for income taxes payable established by GAF in connection with and as a result of the transfer of the surfactants business of GAF Chemicals Corporation, an indirect subsidiary of the Company, to Rhone-Poulenc Specialty Chemicals, L.P. and appearing on the Company's consolidated balance sheet for the quarter ended March 31, 1990, and after other charges, such as declaration of dividends on any capital stock of GAF or payments with respect to repurchases by GAF of any capital stock from holders thereof, but excluding (1) any amounts reflecting the liquidation preferences of any outstanding preferred stock of GAF, (2) any reductions resulting from purchases of GAF's capital stock by persons who participated in promoting the "Acquisition" referred to in the Prospectus dated March 24, 1989 relative to the Common Stock and certain other securities of GAF (predecessor cost basis adjustment), (3) any charges relating to amortization of goodwill and other intangibles arising from the Acquisition and related transactions, (4) that portion of depreciation charges attributable to the write-up of assets as result of the application of purchase accounting in connection with the Acquisition, and (5) any charges relating to amortization of deferred financing costs and expenses incurred in connection with the Acquisition; provided that (i) any adjustments to Book Value shall include the tax effects, if any, associated therewith, (ii) any charges specified in subclauses (3), (4) and (5) above, relating to a business or assets of GAF or any of its subsidiaries, which charges shall have been incurred on or after the date of the Acquisition but which, because of the operation of said subclauses (3), (4) and/or (5), shall not

theretofore have been included in the calculation of Book Value, shall be so included following a transaction involving such business or assets which, in accordance with the next sentence, is deemed a sale or disposition thereof, and (iii) for purposes of clause (ii), an asset, liability or charge not exclusively attributable to the specific business or assets deemed to have been sold or otherwise disposed of shall, if attributable to such business or assets and to other businesses or assets, be deemed to relate to the business or assets sold or otherwise disposed of and to such other businesses or assets pro rata based on relative business and assets values immediately following consummation of the Acquisition; and provided further that, in calculating Book Value, the Shares and, if any other stock appreciation rights issued by GAF based upon appreciation in value of shares of Common Stock are outstanding at the time of calculation, the shares of Common Stock upon which such appreciation in value is based shall be deemed outstanding. The Board of Directors of GAF shall determine (i) whether a transaction involving a business or assets of GAF or any of its subsidiaries is a sale or disposition for purposes of the definition and calculation of Book Value and (ii) if such transaction is a sale or disposition, the amount of the gain or loss thereon. The gain or loss on any sale or disposition shall be the actual economic benefit to GAF from such transaction, as determined by the Board of Directors.

c) Common Stock means the Common Stock, \$.001 par value, of GAF.

d) Current Value means an amount equal to Book Value as of the date of determination multiplied by the number of Shares, increased by an amount equal to any cash dividends or distributions which would have been paid on the Shares from November 1, 1993 through the date of determination if they had been outstanding.

e) Exercise Value means (i) zero if the Grantee's employment with GAF and its subsidiaries is terminated prior to May 1, 1996; (ii) 40% of the Spread, if the Grantee's employment is terminated on or after May 1, 1996 but prior to November 1, 1996; (iii) 60% of the Spread if the Grantee's employment is terminated on or after November 1, 1996 but prior to November 1, 1997; (iv) 80% of the Spread if the Grantee's employment is terminated on or after November 1, 1997 but prior to November 1, 1998; and (v) 100% of the Spread if the Grantee's employment is terminated on or after November 1, 1998.

f) Market Price as of any date means the average of the daily market prices per Share for the 15 consecutive business days immediately preceding such date. The daily market price

for each such business day shall be (i) the last sale price on such day on the principal stock exchange on which the Shares are then listed or admitted to trading, (ii) if no sale takes place on such day on any such exchange, the average of the last reported closing bid and asked prices on such day as officially quoted on any such exchange, (iii) if the Shares are not then listed or admitted to trading on any stock exchange, the average of the last reported closing bid and asked prices on such day in the over-the-counter market, as furnished by the National Association of Securities Dealers Automatic Quotation System or the National Quotation Bureau, Inc., (iv) if neither such corporation at the time is engaged in the business of reporting such prices, as furnished by any similar firm then engaged in such business, or (v) if there is no such firm, as furnished by any member of the NASD selected by the Company.

g) The Restricted Period shall mean the seven-year period commencing November 1, 1993 and ending October 31, 2000.

h) The Spread as of any date of determination means the excess, if any, of the Current Value over the Appreciation Value.

2. If, during the Restricted Period, the Grantee's employment with GAF and its subsidiaries terminates as a result of his death or permanent disability, GAF shall be required to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value based upon Book Value determined as of the end of the calendar quarter immediately preceding the Grantee's death or permanent disability; provided that the Grantee or GAF may elect to have the Current Value based upon Book Value as of the end of calendar year in which death or permanent disability occurs. The Grantee will be deemed to be permanently disabled if he becomes physically or mentally incapacitated or disabled to the extent that he is unable to perform for GAF or its subsidiaries substantially the same services as he performed prior to incurring such incapacity or disability, and the Grantee's incapacity or disability continues for a period of six consecutive months; provided, however, that if at the time of disability Grantee is a party to an employment agreement with GAF or any of its subsidiaries which contains a definition of disability which is inconsistent with the provisions hereof, the definition contained in that employment agreement shall govern for purposes of this Agreement. GAF, at its option and expense, shall be entitled to retain a physician reasonably acceptable to the Grantee to confirm the existence of the incapacity or disability, and the determination of that physician shall be binding upon the Company and the Grantee.

3. If, during the Restricted Period, the Grantee leaves the employ of GAF and its subsidiaries other than as a result of his

death or permanent disability, GAF shall have the right, exercisable by notice to the Grantee within 30 days after termination of employment, to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value based upon Book Value determined as of the last day of the calendar quarter next preceding the calendar quarter in which termination of employment occurs.

4. If GAF fails to exercise its right to repurchase the SAR as provided in paragraph 3, the Grantee shall have the right, exercisable by notice to GAF within 60 days after termination of employment, to require GAF to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value based upon the lowest amount of Book Value calculated as of the last day of the following calendar quarters: the calendar quarter (the "Quarter") immediately preceding the calendar quarter in which the termination of employment occurred and the first, second and third calendar quarters immediately succeeding the Quarter.

5. The Grantee shall have the right at any time after the end of the Restricted Period, exercisable by notice to GAF, to require GAF to repurchase the SAR for an amount in cash equal to the Exercise Price, with the Current Value based upon the lowest amount of Book Value calculated as of the last day of the following calendar quarters: the calendar quarter (the "Put Quarter") immediately preceding the calendar quarter in which the Grantee elects to have the SAR repurchased and the first, second and third calendar quarters immediately succeeding the Put Quarter; provided that, if securities of the same class as the Shares are then registered under the Securities Exchange Act of 1934, as amended, Market Price shall be substituted for Book Value in calculating Current Value.

6. The closing of any repurchase by GAF of the SAR shall be held at the principal offices of GAF within one year after the event giving rise to the repurchase obligation. The purchase price shall be paid by delivery to Grantee of a certified or official bank check. In the event a repurchase of the SAR pursuant to Section 2, 3, 4 or 5 hereof shall be prohibited, or would cause a default, under the terms of any institutional credit agreement, indenture or other like instrument with respect to borrowed money to which GAF or any of its affiliates may be a party or be bound, in each case as the same may be amended from time to time, or shall be prohibited by law, the rights and obligations of the Grantee and GAF pursuant to Section 2, 3, 4 or 5 hereof, as the case may be, shall be suspended until the prohibition lapses or is waived and no default would be caused. If the Board of Directors of GAF shall determine in good faith that, in light of the financial condition or financial resources of the Company, it would be imprudent for the Company to repurchase the SAR pursuant to Section 4 or 5, the rights and obligations of the Grantee and GAF pursuant to Section 4 or 5 shall be suspended until the Board of Directors determines

that such repurchase would be prudent in such light. Upon the lapse or waiver of the restrictions or upon such determination that the purchase would be prudent, as the case may be, the purchase price to be paid by GAF for the SAR shall be determined as of the last day of the calendar quarter in which such restrictions are waived or lapse or such determination occurs, and the purchase price shall be paid with interest thereon at the rate of 5.75% per annum from the first anniversary of the event giving rise to the repurchase obligation to the date of payment.

7. At least 10 days prior to the consummation during the Restricted Period of any sale or transfer by any member of the Heyman Group to any unrelated third party of securities of the same class as Shares, GAF shall cause those members of the Heyman Group (the "Selling Member") to deliver to the Grantee a written notice (a "Sale Notice"), which shall fully disclose the identity of the prospective transferee and the terms and conditions of the proposed sale. The Grantee may elect to participate in the contemplated sale by delivering written notice to the Selling Member within 7 days of receipt of such Sale Notice. If the Grantee elects to sell in the contemplated sale, he will be entitled to sell in the contemplated sale or, if GAF elects, to GAF or to GAF's designee, for an amount per Share equal to the sales price per Share received by the Selling Member minus the Appreciation Value per Share and, to the extent applicable, on the same terms applicable to the Selling Member, that portion of the SAR bearing the same relationship to the number of Shares represented hereby of the class being transferred as the amounts to be so transferred by the Selling Member bear to the Heyman Group's aggregate holdings of securities of such class. This paragraph 7 shall apply to any sales or transfers of Shares, whether or not made pursuant to an effective registration statement in accordance with the Securities Act of 1933, and shall not apply to any sale of securities of the same class as Shares in brokerage transactions on a national securities exchange or in the over-the-counter market. The term "Heyman Group" shall mean Samuel J. Heyman, Heyman Holdings Associates Limited Partnership, or any other person or entity controlled by or under common control with Mr. Heyman.

8. The Shares shall include any securities which would have been received by the Grantee, if the Shares had been outstanding, in any split-up, recapitalization, combination, dividend, distribution, merger or exchange of or relating to the Common Stock of GAF occurring after November 1, 1993, including any securities of a subsidiary of GAF distributed to stockholders of GAF, and if any such event shall occur the Board of Directors of GAF shall make such adjustments in Book Value, Appreciation Value and Current Value as they determine in good faith are appropriate.

9. The Grantee may not sell, pledge, give, transfer, assign, encumber or dispose of the SAR (or any interest herein or therein) except by will or intestacy.

10. All determinations by the Board of Directors of GAF hereunder shall be made in good faith and shall be binding and conclusive.

11. (a) All notices or other communications hereunder shall be given in writing and shall be deemed duly given and received on the third full business day following the date of mailing by registered or certified mail, return receipt requested, or when delivered personally, as follows:

(i) if to GAF:

GAF Corporation  
1361 Alps Road  
Wayne, New Jersey 07470  
Attention: Chief Executive Officer

or at such other place as GAF shall have designated by notice as herein provided to Grantee;

(ii) if to Grantee, at his last address appearing in GAF's records or at such other place as Grantee shall have designated by notice as herein provided to GAF.

(b) This writing constitutes the entire agreement of the parties hereto with respect to its subject matter (including with respect to the acquisition, retention or disposition of any security of GAF or any right or interest therein), supersedes all agreements among the parties with respect to the subject matter hereof and may not be modified or amended except by a written agreement signed by GAF (following the specific approval of such modification or amendment by GAF's Board of Directors) and Grantee. This Agreement, shall be binding upon and inure to the benefit of GAF, its successors and assigns, and the Grantee and his heirs and personal representatives.

(c) If any provision of this Agreement shall be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such invalid or unenforceable provision were not contained in this Agreement.

(d) This Agreement shall be deemed to be a contract under the laws of the State of New York and for all purposes shall be construed and enforced in accordance with the internal laws of that state without regard to principles of conflicts of law.

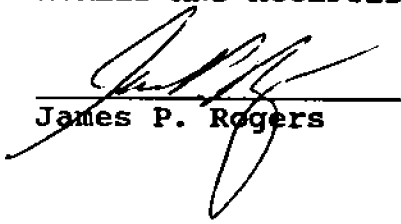
IN WITNESS WHEREOF, the undersigned has executed this instrument as of the 20<sup>th</sup> day of January, 1994.

GAF CORPORATION

By: 

Samuel J. Heyman  
Chairman of the Board  
and Chief Executive  
Officer

AGREED AND ACCEPTED:

  
James P. Rogers

SAR2.JPR



EXHIBIT 10.15

### Stock Appreciation Right

GAF Corporation, a Delaware corporation ("GAF"), hereby grants James J. Strupp (the "Grantee") the right to receive ("SAR") an amount in cash based upon the appreciation in value of 6,202 shares of Common Stock (the "Shares") of GAF Corporation ("GAF"). The SAR shall be on the following terms:

1. Capitalized terms used herein which are not defined elsewhere herein shall have the following meanings:

a) Appreciation Value means an amount equal to Book Value determined as of October 3, 1993 or December 31, 1993, whichever is lower, multiplied by the number of Shares, plus interest on such product from November 1, 1993 at the rate of 5.75% per annum.

b) Book Value means, as of any date of determination, the book value per share of Common Stock as of that date determined in accordance with generally accepted accounting principles, but without giving effect to the reversal, if any, of any or all of the reserve for income taxes payable established by GAF in connection with and as a result of the transfer of the surfactants business of GAF Chemicals Corporation, an indirect subsidiary of the Company, to Rhone-Poulenc Specialty Chemicals, L.P. and appearing on the Company's consolidated balance sheet for the quarter ended March 31, 1990, and after other charges, such as declaration of dividends on any capital stock of GAF or payments with respect to repurchases by GAF of any capital stock from holders thereof, but excluding (1) any amounts reflecting the liquidation preferences of any outstanding preferred stock of GAF, (2) any reductions resulting from purchases of GAF's capital stock by persons who participated in promoting the "Acquisition" referred to in the Prospectus dated March 24, 1989 relative to the Common Stock and certain other securities of GAF (predecessor cost basis adjustment), (3) any charges relating to amortization of goodwill and other intangibles arising from the Acquisition and related transactions, (4) that portion of depreciation charges attributable to the write-up of assets as result of the application of purchase accounting in connection with the Acquisition, and (5) any charges relating to amortization of deferred financing costs and expenses incurred in connection with the Acquisition; provided that (i) any adjustments to Book Value shall include the tax effects, if any, associated therewith, (ii) any charges specified in subclauses (3), (4) and (5) above, relating to a business or assets of GAF or any of its subsidiaries, which charges shall have been incurred on or after the date of the Acquisition but which, because of the operation of said subclauses (3), (4) and/or (5), shall not

theretofore have been included in the calculation of Book Value, shall be so included following a transaction involving such business or assets which, in accordance with the next sentence, is deemed a sale or disposition thereof, and (iii) for purposes of clause (ii), an asset, liability or charge not exclusively attributable to the specific business or assets deemed to have been sold or otherwise disposed of shall, if attributable to such business or assets and to other businesses or assets, be deemed to relate to the business or assets sold or otherwise disposed of and to such other businesses or assets pro rata based on relative business and assets values immediately following consummation of the Acquisition; and provided further that, in calculating Book Value, the Shares and, if any other stock appreciation rights issued by GAF based upon appreciation in value of shares of Common Stock are outstanding at the time of calculation, the shares of Common Stock upon which such appreciation in value is based shall be deemed outstanding. The Board of Directors of GAF shall determine (i) whether a transaction involving a business or assets of GAF or any of its subsidiaries is a sale or disposition for purposes of the definition and calculation of Book Value and (ii) if such transaction is a sale or disposition, the amount of the gain or loss thereon. The gain or loss on any sale or disposition shall be the actual economic benefit to GAF from such transaction, as determined by the Board of Directors.

c) Common Stock means the Common Stock, \$.001 par value, of GAF.

d) Current Value means an amount equal to Book Value as of the date of determination multiplied by the number of Shares, increased by an amount equal to any cash dividends or distributions which would have been paid on the Shares from November 1, 1993 through the date of determination if they had been outstanding.

e) Exercise Value means (i) zero if the Grantee's employment with GAF and its subsidiaries is terminated prior to May 1, 1996; (ii) 40% of the Spread, if the Grantee's employment is terminated on or after May 1, 1996 but prior to November 1, 1996; (iii) 60% of the Spread if the Grantee's employment is terminated on or after November 1, 1996 but prior to November 1, 1997; (iv) 80% of the Spread if the Grantee's employment is terminated on or after November 1, 1997 but prior to November 1, 1998; and (v) 100% of the Spread if the Grantee's employment is terminated on or after November 1, 1998.

f) Market Price as of any date means the average of the daily market prices per Share for the 15 consecutive business days immediately preceding such date. The daily market price

for each such business day shall be (i) the last sale price on such day on the principal stock exchange on which the Shares are then listed or admitted to trading, (ii) if no sale takes place on such day on any such exchange, the average of the last reported closing bid and asked prices on such day as officially quoted on any such exchange, (iii) if the Shares are not then listed or admitted to trading on any stock exchange, the average of the last reported closing bid and asked prices on such day in the over-the-counter market, as furnished by the National Association of Securities Dealers Automatic Quotation System or the National Quotation Bureau, Inc., (iv) if neither such corporation at the time is engaged in the business of reporting such prices, as furnished by any similar firm then engaged in such business, or (v) if there is no such firm, as furnished by any member of the NASD selected by the Company.

g) The Restricted Period shall mean the seven-year period commencing November 1, 1993 and ending October 31, 2000.

h) The Spread as of any date of determination means the excess, if any, of the Current Value over the Appreciation Value.

2. If, during the Restricted Period, the Grantee's employment with GAF and its subsidiaries terminates as a result of his death or permanent disability, GAF shall be required to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value based upon Book Value determined as of the end of the calendar quarter immediately preceding the Grantee's death or permanent disability; provided that the Grantee or GAF may elect to have the Current Value based upon Book Value as of the end of calendar year in which death or permanent disability occurs. The Grantee will be deemed to be permanently disabled if he becomes physically or mentally incapacitated or disabled to the extent that he is unable to perform for GAF or its subsidiaries substantially the same services as he performed prior to incurring such incapacity or disability, and the Grantee's incapacity or disability continues for a period of six consecutive months; provided, however, that if at the time of disability Grantee is a party to an employment agreement with GAF or any of its subsidiaries which contains a definition of disability which is inconsistent with the provisions hereof, the definition contained in that employment agreement shall govern for purposes of this Agreement. GAF, at its option and expense, shall be entitled to retain a physician reasonably acceptable to the Grantee to confirm the existence of the incapacity or disability, and the determination of that physician shall be binding upon the Company and the Grantee.

3. If, during the Restricted Period, the Grantee leaves the employ of GAF and its subsidiaries other than as a result of his

death or permanent disability, GAF shall have the right, exercisable by notice to the Grantee within 30 days after termination of employment, to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value based upon Book Value determined as of the last day of the calendar quarter next preceding the calendar quarter in which termination of employment occurs.

4. If GAF fails to exercise its right to repurchase the SAR as provided in paragraph 3, the Grantee shall have the right, exercisable by notice to GAF within 60 days after termination of employment, to require GAF to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value based upon the lowest amount of Book Value calculated as of the last day of the following calendar quarters: the calendar quarter (the "Quarter") immediately preceding the calendar quarter in which the termination of employment occurred and the first, second and third calendar quarters immediately succeeding the Quarter.

5. The Grantee shall have the right at any time after the end of the Restricted Period, exercisable by notice to GAF, to require GAF to repurchase the SAR for an amount in cash equal to the Exercise Price, with the Current Value based upon the lowest amount of Book Value calculated as of the last day of the following calendar quarters: the calendar quarter (the "Put Quarter") immediately preceding the calendar quarter in which the Grantee elects to have the SAR repurchased and the first, second and third calendar quarters immediately succeeding the Put Quarter; provided that, if securities of the same class as the Shares are then registered under the Securities Exchange Act of 1934, as amended, Market Price shall be substituted for Book Value in calculating Current Value.

6. The closing of any repurchase by GAF of the SAR shall be held at the principal offices of GAF within one year after the event giving rise to the repurchase obligation. The purchase price shall be paid by delivery to Grantee of a certified or official bank check. In the event a repurchase of the SAR pursuant to Section 2, 3, 4 or 5 hereof shall be prohibited, or would cause a default, under the terms of any institutional credit agreement, indenture or other like instrument with respect to borrowed money to which GAF or any of its affiliates may be a party or be bound, in each case as the same may be amended from time to time, or shall be prohibited by law, the rights and obligations of the Grantee and GAF pursuant to Section 2, 3, 4 or 5 hereof, as the case may be, shall be suspended until the prohibition lapses or is waived and no default would be caused. If the Board of Directors of GAF shall determine in good faith that, in light of the financial condition or financial resources of the Company, it would be imprudent for the Company to repurchase the SAR pursuant to Section 4 or 5, the rights and obligations of the Grantee and GAF pursuant to Section 4 or 5 shall be suspended until the Board of Directors determines

that such repurchase would be prudent in such light. Upon the lapse or waiver of the restrictions or upon such determination that the purchase would be prudent, as the case may be, the purchase price to be paid by GAF for the SAR shall be determined as of the last day of the calendar quarter in which such restrictions are waived or lapse or such determination occurs, and the purchase price shall be paid with interest thereon at the rate of 5.75% per annum from the first anniversary of the event giving rise to the repurchase obligation to the date of payment.

7. At least 10 days prior to the consummation during the Restricted Period of any sale or transfer by any member of the Heyman Group to any unrelated third party of securities of the same class as Shares, GAF shall cause those members of the Heyman Group (the "Selling Member") to deliver to the Grantee a written notice (a "Sale Notice"), which shall fully disclose the identity of the prospective transferee and the terms and conditions of the proposed sale. The Grantee may elect to participate in the contemplated sale by delivering written notice to the Selling Member within 7 days of receipt of such Sale Notice. If the Grantee elects to sell in the contemplated sale, he will be entitled to sell in the contemplated sale or, if GAF elects, to GAF or to GAF's designee, for an amount per Share equal to the sales price per Share received by the Selling Member minus the Appreciation Value per Share and, to the extent applicable, on the same terms applicable to the Selling Member, that portion of the SAR bearing the same relationship to the number of Shares represented hereby of the class being transferred as the amounts to be so transferred by the Selling Member bear to the Heyman Group's aggregate holdings of securities of such class. This paragraph 7 shall apply to any sales or transfers of Shares, whether or not made pursuant to an effective registration statement in accordance with the Securities Act of 1933, and shall not apply to any sale of securities of the same class as Shares in brokerage transactions on a national securities exchange or in the over-the-counter market. The term "Heyman Group" shall mean Samuel J. Heyman, Heyman Holdings Associates Limited Partnership, or any other person or entity controlled by or under common control with Mr. Heyman.

8. The Shares shall include any securities which would have been received by the Grantee, if the Shares had been outstanding, in any split-up, recapitalization, combination, dividend, distribution, merger or exchange of or relating to the Common Stock of GAF occurring after November 1, 1993, including any securities of a subsidiary of GAF distributed to stockholders of GAF, and if any such event shall occur the Board of Directors of GAF shall make such adjustments in Book Value, Appreciation Value and Current Value as they determine in good faith are appropriate.

9. The Grantee may not sell, pledge, give, transfer, assign, encumber or dispose of the SAR (or any interest herein or therein) except by will or intestacy.

10. All determinations by the Board of Directors of GAF hereunder shall be made in good faith and shall be binding and conclusive.

11. (a) All notices or other communications hereunder shall be given in writing and shall be deemed duly given and received on the third full business day following the date of mailing by registered or certified mail, return receipt requested, or when delivered personally, as follows:

(i) if to GAF:

GAF Corporation  
1361 Alps Road  
Wayne, New Jersey 07470  
Attention: Chief Executive Officer

or at such other place as GAF shall have designated by notice as herein provided to Grantee;

(ii) if to Grantee, at his last address appearing in GAF's records or at such other place as Grantee shall have designated by notice as herein provided to GAF.

(b) This writing constitutes the entire agreement of the parties hereto with respect to its subject matter (including with respect to the acquisition, retention or disposition of any security of GAF or any right or interest therein), supersedes all agreements among the parties with respect to the subject matter hereof and may not be modified or amended except by a written agreement signed by GAF (following the specific approval of such modification or amendment by GAF's Board of Directors) and Grantee. This Agreement, shall be binding upon and inure to the benefit of GAF, its successors and assigns, and the Grantee and his heirs and personal representatives.


(c) If any provision of this Agreement shall be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such invalid or unenforceable provision were not contained in this Agreement.

(d) This Agreement shall be deemed to be a contract under the laws of the State of New York and for all purposes shall be

construed and enforced in accordance with the internal laws of that state without regard to principles of conflicts of law.

IN WITNESS WHEREOF, the undersigned has executed this instrument as of the 20<sup>th</sup> day of January, 1994.

GAF CORPORATION

By:   
Samuel J. Heyman  
Chairman of the Board  
and Chief Executive  
Officer

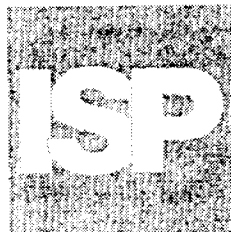
AGREED AND ACCEPTED:

  
James J. Strupp

SAR2.JJS



EXHIBIT 13.1



**INTERNATIONAL SPECIALTY PRODUCTS INC.  
1993 ANNUAL REPORT**

## *About The Company*

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International Specialty Products operates one of the world's premier specialty chemicals Companies. The Company has approximately 2,400 employees at more than 70 locations, including manufacturing facilities, research laboratories, and sales and customer service offices throughout the world, serving customers in 75 countries.

The Company manufactures four major groups of products – specialty derivative chemicals, mineral granules, filter products and advanced materials – holding a significant market share in each of these principal product groups.

ISP produces more than 300 specialty derivative chemicals, which have a broad range of applications, encompassing such markets as pharmaceuticals, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's products, while often representing a relatively small portion of customers' production costs, generally constitute key ingredients in the end products in which they are used. The business is characterized by an emphasis on technology, research and development, marketing and customer service. The Company believes it has been able to sustain its market share positions for its specialty derivative chemicals by establishing and maintaining long-term relationships with its customers and

working closely with them to develop chemicals tailored to their specific needs.

ISP's mineral products business manufactures ceramic colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company's granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection, and increased weight.

The Company manufactures filter products, consisting of pressure filter vessels, filter bags and filter systems designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries.

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders which are used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food and beverage industries.

ISP's stock is traded on the New York Stock Exchange under the symbol "ISP".

# Financial Highlights

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands, except per share amounts)	1993	1992	1991
Net sales	\$ 548,252	\$ 570,757	\$ 525,786
Operating income	\$ 65,091	\$ 107,664	\$ 121,852
Income before income taxes and cumulative effect of accounting change	\$ 49,823	\$ 85,782	\$ 75,682
Income before cumulative effect of accounting change	\$ 29,558	\$ 57,182	\$ 50,646
Net income	\$ 29,558	\$ 50,113	\$ 50,646
Earnings per common share:			
Income before cumulative effect of accounting change	\$ .30	\$ .57	\$ .56
Net income	\$ .30	\$ .50	\$ .56

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## *Chairman's Message*

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### **FELLOW SHAREHOLDERS:**

1993 was a year in which ISP fell far short of its goals in terms of its financial performance, primarily as a result of the continued weak European economics, the adverse effect of foreign exchange, and lower sales in the Company's mineral products business. Despite ISP's disappointing performance, the fundamental strength of our businesses, together with a number of actions we took this past year, provide cause for cautious optimism that 1994 will mark the beginning of a meaningful turnaround in the Company's performance.

### **1993 FINANCIAL RESULTS**

For the 12-month period ended December 31, 1993, net income was \$29.6 million (30 cents per share), compared with \$50.1 million (50 cents per share) in 1992, the latter including an after-tax charge of \$7.1 million (7 cents per share) in connection with an accounting change related to postretirement benefits. Net income in 1993 reflects a pre-tax provision of \$13.8 million primarily related to the Company's cost reduction program announced last October and a non-recurring, retroactive income tax provision of \$2.9 million (3 cents per share), representing the effect of the change in the federal corporate income tax rate on the

Company's net deferred tax liability.

Operating income was \$78.9 million (excluding the \$13.8 million charge) versus \$107.7 million in 1992, while revenues were \$548.3 million versus last year's \$570.8 million. Excluding the two non-recurring charges in 1993, full year net income was \$41.3 million (41 cents per share), compared with net income (excluding the \$7.1 million charge) of \$57.2 million (57 cents per share) for 1992.

Results in 1993 were affected by a \$28.8 million reduction in operating income (excluding the \$13.8 million charge) and a \$3.9 million reduction in income from the GAF-Hüls joint venture, partially offset by a decrease in interest expense of \$6.1 million and an increase in other income of \$4.5 million.

### **SIGNIFICANT DEVELOPMENTS**

This past year was one in which the Company initiated a \$25 million cost reduction program designed to reduce operating costs throughout the Company; continued to expand, at double-digit rates of growth, its business in the Asia-Pacific and Latin American regions of the world; increased the geographic penetration of its specialty derivative chemicals business around the world; developed a number of promising new products and applications; launched an all-out, Company-wide quality

improvement program, initially to be focused on its manufacturing and customer service functions and with eventual application to operations throughout the Company; strengthened the Company's balance sheet, reducing debt by almost \$70 million, thereby reducing the Company's ratio of net debt-to-total capitalization (assuming the application of cash and marketable securities toward debt reduction) from 45.7% to 40.6%; and finally in the closing days of the year obtained approval from the New Jersey Hazardous Waste Facilities Siting Commission for the construction and operation of a commercial hazardous waste incinerator at the Company's Linden, New Jersey site.

***(1) \$25 Million Cost Reduction Program***

ISP initiated last October a \$25 million cost reduction program designed to address virtually every cost of doing business and, in so doing, reduce operating costs throughout the Company, including those related to manufacturing, sales, and administration. The program involves already implemented personnel reductions of more than 135 employees, consisting of almost 10% of the Company's salaried work force, and other cost cutting actions which will reduce a wide range of operating costs. Cost reduction measures involving more than one-half the total

reductions envisioned by the program have already been implemented, with the balance, principally in the manufacturing area, expected to be completed over the balance of 1994.

It is important to note, I believe, that the cost cutting measures encompassed by this program were, rather than across-the-board actions, carefully tailored so that the areas of our businesses on which we expect to increasingly rely for future growth will remain unaffected. Along this line, we have eliminated unnecessary overhead and redundant layers of management, reduced operating costs through purchasing efficiencies, and are in the process of reducing manufacturing costs through a whole host of process improvement programs aimed at improving yields, productivity and raw materials efficiency.

***(2) Geographic Expansion***

ISP continued last year to expand its specialty derivative chemicals business by increased geographic penetration, with continued emphasis on the Asia-Pacific and Latin America regions, where sales and operating income (excluding the \$13.8 million restructuring charge) increased in the Asia-Pacific by 22% and 35%, respectively, and in Latin America, 23% and 12%, respectively. In order to further the geographic expansion of ISP's business, we

have in the past year opened offices in Beijing and Moscow and currently plan in 1994 to either open new operations or add to the Company's existing presence in Argentina, India, Korea, Poland, Taiwan, Venezuela, and Vietnam. We continue to believe that ISP's geographic expansion program will serve as one of the key drivers of its future growth, and the Company expects to be particularly aggressive in the pursuit of other attractive opportunities in this area.

As the Company's international business continues to take on an increasingly significant role, ISP's European manufacturing project becomes all the more important. In this connection, we currently have under consideration several sites, in addition to the original Ghlin-Baudour, Belgium location, for the establishment of a European manufacturing facility, and the Company expects to make a final site determination some time this year, with actual commencement of operations scheduled for 1996. The facility will not only be extremely cost efficient as a result of new, state-of-the-art technology but should also enable ISP to reduce its distribution costs and better serve its international customers with a reliable and efficient source of ISP products.



Samuel J. Heyman, Chairman of the Board and Chief Executive Officer (left), and Carl R. Eckardt, President and Chief Operating Officer

### *(3) New Products and Applications*

ISP continued this past year the same high level of commitment to its new product development programs as it made in 1992, a year in which research and development expenditures increased by almost 20%. Those products introduced to the market this past year and which show

particular promise are: Gantrez® XL-80, a new hair care product, with superior performance characteristics and designed to meet more stringent environmental (VOC) requirements; Escalol® 597, a new Van Dyk sunscreen product which increases the sun protection factor (SPF) of sun care products; Pharmasolve™, a pharmaceutical grade solvent designed for use in injectables and topical delivery systems to enhance drug delivery and efficacy; Flunixin meglumine, a high value veterinary drug for use as an anti-inflammatory for horses and cattle; Polyclar® Super R, a regenerable polymer for stabilizing and clarifying beer and wine; Rapi-Cure® PEPC, a unique and effective reactive solvent which significantly broadens the applications for radiation curable coating, a more environmentally-friendly coating process; DOSE-MAP™, a quantitative dosimetry system measuring the dose distribution of blood irradiation devices, which complements the Company's 1992 introduction of RAD-SURE®, a film indicator which validates the irradiation treatment of blood components.

#### ***(4) Company-wide Quality Improvement Program***

While ISP has always regarded quality and customer and technical service as the critical cornerstones of the success of its

business, the Company moved this past year to focus additional management attention and resources to these all-important areas so that we can meet or exceed the expectations of our customers with regard to the delivery and quality of ISP's products and services.

To this end, we intensified last Fall the Company's commitment to its quality effort with the establishment of a Quality Department and the appointment of John Tancredi, the Company's former Vice President, Research and Development, as Chief Technical and Quality Officer with responsibility for ISP's Company-wide quality improvement effort. The primary focus of ISP's quality program in 1994 will be on enhancing customer satisfaction through a better understanding of the needs of ISP's customers, quickly translating those needs and expectations into rapid delivery, and continuing to improve the quality of our manufacturing and customer service operations. To this end, ISP recently reoriented its sales organization along end use market lines so as to better serve its customers and continued as well to intensify its efforts to improve its manufacturing operations. In this latter connection, a number of process improvement teams have been established at most all ISP's manufacturing facilities,



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and their work over the balance of this year can be expected to increase productivity, reduce waste and inefficiency, and improve the overall quality of the Company's manufacturing operations.

Finally, as evidence of the progress we have made already, the Company's Calvert City, Kentucky, and Chatham, New Jersey, manufacturing facilities recently received ISO 9002 certification, adding to the certification already received by ISP's Texas City, Texas, facility in 1991. ISO 9002 certification is an internationally accepted hallmark of quality management and assurance, and with these three production facilities having received certification, ISP now ranks in the top echelon of American industry in achieving this increasingly important quality standard.

#### **OTHER DEVELOPMENTS**

After a more than five-year effort, ISP's Environmental Services unit received approval from the New Jersey Hazardous Waste Facilities Siting Commission late last year for the construction and operation of a commercial hazardous waste incinerator at the site of its former Linden, New Jersey plant. While the city of Linden has appealed the Commission's decision to the Courts and the approval itself is subject to a number of conditions, we are now in a

position to move forward with the balance of the permitting process with a view toward commencing construction of the incinerator facility some time late next year.

#### **PROSPECTS FOR 1994**

While we should see in 1994 an improvement in ISP's earnings compared with those of the prior year even (even after excluding the special charges), given the fact that a number of the same factors which adversely affected the Company's 1993 performance continue to persist, it is still too early to make any definitive predictions. Nonetheless, it is clear that ISP's performance in 1994 will benefit from the developments we have recounted, and that the Company's focus on cost control, efficiency, and quality will make an important contribution to what we expect will be a better performance this year and thereafter.

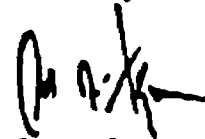
The success of any organization is the direct result of the quality and performance of its people, and in this respect one of the accomplishments this past year in which we can take pride has been the continued upgrading of ISP's organization. I am delighted that Carl Eckardt has assumed again the position of President and Chief Operating Officer of the Company, a position which Carl held over a five-year

period in the 1980's, during which time he guided the Company to 16 consecutive quarterly increases in operating income. I am confident that Carl will provide the kind of capable and decisive leadership needed to enable our Company to regain its earnings growth momentum. Moreover, we continued this past year to attract a number of new executives to the Company, as well as develop and promote executives from within our ranks, such as: Paul J. Aronson, Vice President, Taxes; William H. Baum, Vice President, Sales; Mark A. Buckstein, Executive Vice President, General Counsel, Secretary and Director; Geoffrey A. Gaywood, Vice President and General Manager, European Region; Salvatore J. Guccione, Vice President, Personal Care Business; Richard B. Olsen, Senior Vice President and Chief Financial Officer; James P. Rogers, Senior Vice President, Finance and Treasurer; and Edward T. Wolynic, Vice President, Research and Development.

I am delighted that these pages afford me the opportunity to express my appreciation to all my fellow ISP employees who have manifested ability, efforts, and a degree of intensity far beyond the ordinary in the pursuit of our common endeavors.

While we are, to be sure, disappointed in the Company's operating performance this past year, I can assure you, my fellow shareholders, as to the absolute commitment of all ISP employees to effect a meaningful turnaround of the Company's performance in 1994. Given the fundamental strengths of our business, the actions we have taken this past year as recounted in these pages, and the fact that we now have at the helm an exceptionally strong management team, we believe that we can look forward to a successful 1994.

Sincerely,



Samuel J. Heyman  
Chairman of the Board  
and Chief Executive Officer

March 30, 1994

International Specialty Products is one of the world's premier specialty chemicals Companies with a broad line of specialty products, including specialty derivative chemicals, mineral products, filter products, and advanced materials. The Company has 16 domestic and international manufacturing facilities, including a joint-venture Company in Germany, GAF-Hüls Chemie GmbH, and markets its products in 75 countries throughout the world.

### **SPECIALTY DERIVATIVE CHEMICALS**

ISP manufactures more than 300 specialty derivative chemicals having numerous applications in consumer and industrial products. The Company uses proprietary technology to convert a number of raw materials, through a chain of one or more processing steps, into increasingly complex and higher valued derivatives to meet specific customer requirements. The Company's specialty derivative chemicals, which include intermediates, solvents, vinyl ethers, and polymers, are derived primarily from acetylene, and the Company believes it produces the broadest line of acetylene derivatives available in the world. ISP is also a major producer of cosmetic and industrial preservatives through its Sutton Labs, skin care products including emollients, pearlescent pigments, and products for sunscreen applications through its Van Dyk business, and fine chemicals.

ISP's specialty derivative business is organized by end-use industries into three

worldwide, market-oriented business units: Personal Care; Pharmaceutical, Agricultural and Beverage; and Industrial.

### ***Personal Care***

ISP produces a wide range of products for the personal care industry, providing thousands of well-known hair care, skin care, toiletry and cosmetic products with their high performance characteristics. For example, the Company is a leading manufacturer of hair fixatives through its Gantrez®, Gafquat®, and PVP/VA family of products, which provide hairsprays, mousses, and gels with their strong hair holding power. ISP's state-of-the-art laboratory at Wayne, New Jersey, which includes elaborate facilities for direct consumer testing of hair care products, has played an important role in the development of several significant new products, such as Gantrez® XL-80, a new, high performance hair spray additive which enables manufacturers to meet strict regulatory requirements to reduce volatile organic compounds (VOCs).

Through the development of several important new products and the acquisition of the Van Dyk personal care business, ISP has significantly strengthened its presence in the skin care market and now provides an extremely broad range of products, including ultraviolet absorbers, waterproofing agents, pigments, emollients and emulsifiers, for use in hundreds of consumer applications. Sales of ISP's

sunscreen products, including the Van Dyk Escalol® line of ultraviolet absorbers, were substantially higher last year as a result of increased demand as well as the introduction of a new sunscreen product, Escalol® 597, which enhances the sun protection factor (SPF) of sun care products.

ISP's Sutton Labs produces specialty preservatives, which are marketed worldwide primarily to the cosmetics and personal care industries for use in hair and skin care products, bath and shower, baby, eye makeup, facial makeup and after-shave preparations, and nail products. Sales of Sutton products have increased significantly since ISP acquired the Company five years ago, with Sutton's growth having been primarily fueled by expansion of Sutton's overseas business. Last year, the Company commercialized LiquaPar® Oil, a unique liquid preservative, whose effectiveness and ease of use is expected to insure the success of this product in a broad range of biocide applications. Moreover, Sutton Labs recently launched a family of industrial preservatives, Integra™ 22 and Integra™ 44, designed to target specialty industrial markets.

#### ***Pharmaceutical, Agricultural, and Beverage***

ISP's products for the pharmaceutical, agricultural, and beverage industries provide superior performance characteristics for a substantial number of end use products while enabling them at the

same time to meet increasingly strict worldwide regulatory requirements.

In the pharmaceutical area, ISP products are key ingredients in tablets, injectables, cough syrups, antiseptics, toothpaste, denture adhesives and other oral preparations. ISP's Polyplasdone® excipients function as both the binding agent to hold pharmaceutical tablets together and disintegrants which help release the active ingredient in a controlled manner. Sales of Polyplasdone® and Plasdone® excipients increased in 1993 as a result of increased penetration of new and existing geographic markets as well as the increased use of these products in generic drugs. Moreover, the Company has several new research and development projects currently under way in the areas of direct compression tableting and innovative delivery systems such as transdermal patches.

ISP is a leading producer of inert ingredients for the agricultural industry, where the Company's solvent and polymer products are used for the formulation of safer and more effective agricultural applications. ISP's Agrimer® family of polymers and copolymers are, for example, integral components in formulations such as granules, tablets, and seed coatings, which serve not only to make these formulations safer and more effective but so also reduce the amount of pesticide required for effective pest control. A number of these products were among the first to receive

approval for use as inert ingredients from the United States Environmental Protection Agency in 1992 following the agency's adoption of strict new regulations.

ISP has been a major participant in the beverage industry for many years, where ISP's leading product, Polyclar®, serves the function of insuring the quality, and extending the shelf life, of beer, wine, and fruit juices. Polyclar® Super R, just introduced to the market last year, is fast gaining customer acceptance for its effectiveness in not only extending the useful life of the end use product but by reducing filtration times as well. The Company anticipates receiving regulatory approval in Japan this year for use of Polyclar® in Japan's beer industry, thereby promising to open a significant new market for the Company.

### **Industrial**

ISP's specialty derivatives business produces numerous specialty polymers and vinyl ethers for use in a wide range of industrial markets, such as coatings, adhesives, electronics, and metal working, in addition to intermediate and solvent products such as butanediol and N-methyl pyrrolidone (NMP), whose primary applications are for use in high performance plastics, lubricating oil and chemical extraction, electronics cleaning, and coatings.

The Company continued last year to increase its penetration of the household,

industrial and institutional cleaning market, with sales of its Gaftex® polymers growing substantially as a result of a new application using Gaftex® as a dye transfer inhibitor in laundry detergents to prevent the deposition of fugitive colors in mixed color washes. The Company is also developing several new industrial applications for its versatile product line, including an application for the next generation of high density television screens and computer color monitors, where the Company's PVP polymers provide coatings for sharper, clearer images.

ISP has brought to the market over the past several years a family of new environmentally-friendly products, known as Engineered Solvents, to replace chlorinated and other volatile solvents, for use in a variety of industries for cleaning, stripping and degreasing. The product line includes, for example, formulated products especially designed for cleaning applications, such as ShipShape® for fiberglass boat manufacture, PrintSolve™ for graphic arts, FoamFlush® for polyurethane foam molders, Partsprep® for metal degreasing, and Micropure® CDF for electronics cleaning. Sales of the Company's engineered products increased significantly this past year and are expected to grow at even higher rates as regulatory requirements affecting chlorinated solvents become ever more restrictive.

## **MINERAL PRODUCTS**

ISP's mineral products business manufactures ceramic colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company is one of only two major suppliers of colored roofing granules in North America, with its mineral roofing granules being sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection, and increased weight.

Mineral products sales have benefitted from an industry trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles, which require approximately 30% more granules than traditional three-tab lightweight roofing shingles. To meet anticipated increased demand, the Company will complete in the second quarter of 1994 a significant capacity expansion at its production facility in Blue Ridge Summit, Pennsylvania.

ISP's mineral products business is also the nation's leading producer of a fine granular material, now being marketed under its ADCOURT™ brand and formerly marketed under the name "Har-Tru®", for use in the construction of fast-drying clay tennis courts. The Company has been for many years the major supplier of this tennis court material in the northeastern region of

the United States and is now in the process of expanding its market coverage to the southeastern part of the country as well.

## **FILTER PRODUCTS**

ISP's filter products business produces complete filter systems, under the name "GAF Filtration Systems", consisting of pressure filter vessels and filter bags designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum, municipal water, and food and beverage industries. ISP is a leading worldwide supplier of bag filtration equipment, and its strategy over the past several years has been to develop new, higher value-added bag filtration products, expand its share of the filter vessels market, and increase the geographic penetration of its business in the United States as well as the Asia-Pacific and Latin American regions of the world.

The Company operates one domestic and four international production facilities. While the primary geographic market for the Company's filter products has traditionally been Europe, ISP began to expand its market penetration in the Asia-Pacific region four years ago, and in 1992 opened a production, distribution, and sales center in Memphis, Tennessee, to better serve the United States market.

The Company has been one of the most innovative leaders in the bag filtration industry in terms of the introduction of higher value-added bag filtration products,

having recently developed the Accurate™ 1 high efficiency bag filter, which accommodates higher flow rates and has a longer service life than equivalent-rated cartridge filters. The Accurate™ 1 product has met with enthusiastic market reception from such diverse users as Mercedes Benz, which has selected ISP's product for an important paint filtration process, to one of New York City's largest residential buildings which has chosen to use the Accurate™ 1 in connection with a large potable water filtration system for the building. The Company has also recently introduced a new range of POXL™ Extended Life Filter bags, which help its customers to substantially reduce their costs through waste minimization, reduced maintenance, and the extension of useful filter life. These new products offer significant growth potential for ISP's filters business, as they satisfy the needs of its customers for cost effective filtration and waste disposal minimization.

#### **ADVANCED MATERIALS**

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders, sold under the Company's trademark, Micropowder®, for use in a number of applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical, and food industries. In addition, the Company's FDA-approved Ferronyl® iron has been widely accepted as an iron supplement in multi-vitamins and

other pharmaceutical products and is widely regarded by medical experts as safer for these uses than iron salts.

ISP's Advanced Materials business markets in addition a growing range of unique and innovative products, including RAD-SURE®, radiation-sensitive labels which indicate whether hospital blood bags have been properly irradiated; PERM® and GAFCHROMIC® processless electron recording films for a variety of instant imaging, data recording and medical dosimetry applications; and DOSE-MAP™, a product introduced last year for measuring the radiation distribution of blood irradiation devices.

#### **INTERNATIONAL OPERATIONS**

As a result of the Company's continued penetration of existing overseas markets and expansion into new ones, ISP's international sales have grown at an average annual compounded rate of 16% over the past ten years and now constitute more than 50% of the Company's total specialty derivative sales. This has been accomplished by the development of direct sales capability, through the opening of new marketing and sales offices in 11 countries, including Russia, the People's Republic of China, Hungary, Taiwan, and Argentina, and the initiation of direct export sales in four other countries. Virtually all of ISP's specialty derivative chemical and filter product lines are now sold internationally, and approximately 80% of ISP's revenues

outside the United States are currently generated by the Company's own sales force, with the remainder originating through a worldwide network of experienced distributors.

As part of its plan to further its international expansion, ISP intends to construct a new European specialty chemicals manufacturing complex to meet the needs of its European business. ISP's European customers for specialty derivatives chemicals are currently being served by the Company's plants in the United States, as well as its joint venture manufacturing operation at Marl, Germany, and the new facility should enable the Company to reduce its distribution costs and better serve its growing European customer base.

#### RESEARCH AND DEVELOPMENT

ISP continued its commitment this past year to a strong research and development effort in connection with new products and applications as well as process improvements. To this end, the Company upgraded its technical staff particularly in the personal care area; increased its focus on process improvement in furtherance of the Company's overall cost reduction goal; and expanded its Science Advisory Board, now comprised of six world-class scientists who regularly review, and offer guidance and counsel with respect to, the Company's

entire research and development operations.

As a result of the Company's investment over the past four years in research and development, it has been able to develop, introduce, and market more than 50 new products and hundreds of new applications during this period of time, including several important products in 1993, such as Gantrez® XL-80, Escalol® 597, and Polyclar® Super R, all mentioned previously in these pages.

#### CAPITAL EXPANSION PROGRAM

The Company continued this past year an aggressive capital expansion program, committing substantial financial resources to the modernization of its plants and equipment at the rate of more than \$50 million per annum for the second year in a row. In this connection, the Company has now completed, or is in the process of completing, capacity expansions with regard to most of its high-value specialty chemicals lines, including PVP K90, Gantrez®, Plasdone®, and Polyclar® products. So also, the capital program includes process improvement projects designed to improve manufacturing efficiency and product quality as well as reduce costs. The Company intends to continue its capital programs in 1994 at a level comparable to that of the previous two years.



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# *Management's Discussion and Analysis of Financial Condition and Results of Operations*

INTERNATIONAL SPECIALTY PRODUCTS INC.

## GENERAL

In 1991, International Specialty Products Inc. (the "Company"), an indirect subsidiary of GAF Corporation ("GAF"), acquired substantially all of the operating businesses then conducted by GAF Chemicals Corporation ("GCC"). In July 1991, the Company completed an initial public offering of 19.4 million shares, or 19.4%, of its common stock.

## 1993 COMPARED WITH 1992

In 1993, the Company recorded net income of \$29.6 million (\$.30 per share) compared with net income of \$50.1 million (\$.50 per share) for the year 1992. The net income in 1993 reflects a retroactive income tax provision of \$2.9 million, representing the effect of a 1% increase in the Federal corporate income tax rate on the Company's net deferred tax liability as of December 31, 1992, and a pre-tax provision of \$13.8 million primarily related to the Company's cost reduction program announced in October 1993 (see Note 3 of Notes to Consolidated Financial Statements). Net income for 1992 reflects a one-time charge of \$7.1 million (\$.07 per share) representing the cumulative effect of the change in accounting for postretirement benefits other than pensions, net of a related income tax benefit of \$3.9 million.

The 1993 results were impacted by lower operating income (down \$42.6 million including the \$13.8 million restructuring charge) and by lower earnings of the GAF-Hüls joint venture ("GAF-Hüls") (down \$3.9 million), partially offset by a \$6.1 million reduction in interest expense and a \$4.5 million improvement in other income.

Sales for 1993 were \$548.3 million compared with \$570.8 million for the year 1992. This sales decrease was primarily attributable to lower sales of mineral products (down 20%) as a result of lower customer demand due primarily to customers lost as a result of increased competition and the absence of storm damage which increased sales in the latter half of 1992; and the adverse effect of a stronger dollar, which impacted sales by \$20.2 million. The foregoing factors were partially offset by higher sales of specialty derivative products in the Asia-Pacific region of \$12.3 million and the combined incremental sales of the Van Dyk personal care (acquired in

March 1992) and the MTM fine chemicals (acquired in February 1993) businesses, which totaled \$14.8 million.

Operating income for 1993 was \$65.1 million compared with \$107.7 million for 1992, with the decrease resulting primarily from the \$13.8 million restructuring charge mentioned above, the adverse effect of a stronger dollar, which impacted operating income by \$15.6 million, lower operating income from mineral products (down \$10.7 million) as a result of the aforementioned sales decline, increased selling, general and administrative expenses, and higher manufacturing costs of specialty derivative chemicals. Such higher manufacturing costs were due to increased production costs (mostly salaries and wages and depreciation related to increased capital investments) coupled with reduced production rates (as the production rate decline which began in the fourth quarter of 1992 and was designed to bring inventories in line with reduced demand continued into the first quarter of 1993).

Of the \$28.8 million decrease in operating income in 1993 (before the \$13.8 million restructuring charge), domestic operating income decreased by \$25.2 million, and operating income from Europe decreased by \$7.9 million, while operating income from other foreign operations increased by \$4.3 million, mainly in the Asia-Pacific region. The larger decrease in domestic operating income as compared to non-U.S. operating income was primarily due to the higher manufacturing costs for specialty derivative chemicals discussed above, which costs were not allocated to non-U.S. operations.

Interest expense for 1993 was \$24.5 million, a reduction of \$6.1 million from \$30.6 million in 1992. The decrease was attributable to lower interest rates and reduced average outstanding borrowings.

Other income was \$7.2 million in 1993 compared with \$2.7 million in 1992. This category is comprised of foreign exchange gains/losses resulting primarily from revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, other nonoperating and nonrecurring items of income and expense, and net investment income. The increase in 1993 was due principally to higher investment income, partially offset by higher foreign exchange translation losses

## *Management's Discussion and Analysis of Financial Condition and Results of Operations* continued

and costs related to the sale of accounts receivable (see Note 5 of Notes to Consolidated Financial Statements).

### **1992 COMPARED WITH 1991**

In 1992, the Company recorded net income of \$50.1 million (\$.50 per share based on 99.9 million shares outstanding) compared with net income of \$50.6 million (\$.56 per share based on an average of 90.2 million shares outstanding) for the year 1991. Net income for 1992 reflects a one-time charge of \$7.1 million (\$.07 per share) representing the cumulative effect of the change in accounting for postretirement benefits other than pensions, net of a related income tax benefit of \$3.9 million.

Income for 1992 before the one-time charge was \$57.2 million (\$.57 per share), an increase of \$6.5 million (13%) over the prior year. The improved results were attributable to a \$22.1 million reduction in interest expense and a \$4.1 million improvement in other income (expense), partially offset by a \$14.2 million decline in operating income and lower earnings of GAF-Hüls.

Sales for 1992 increased \$45 million to \$570.8 million compared with \$525.8 million in 1991. The sales increase was attributable primarily to growth in the Company's mineral products due to stronger roofing demand, increased sales of high margin specialty products, and the acquisition in March 1992 of the Van Dyk personal care business, partially offset by lower sales of intermediates and solvents. Van Dyk sales were approximately \$22.5 million for 1992 (4% of the Company's sales).

Operating income for 1992 was \$107.7 million, down \$14.2 million from \$121.9 million in 1991, with specialty derivative chemicals down by \$20.9 million and mineral products up by \$6.9 million. The leading factor contributing to the decrease in specialty derivative chemicals was higher selling, general, and administrative costs of \$10.3 million in connection with the Company's increased marketing, sales and research and development efforts. The remainder of the decrease in specialty derivative chemicals was due primarily to higher manufacturing costs and, to a lesser extent, a provision for obsolete inventory and reduced pricing for the Company's intermediate and

solvent products as a result of increased competition brought on by the entry of new competition for these products which led to some lower market pricing. The higher manufacturing costs in specialty derivative chemicals were primarily attributable to unabsorbed overhead in the fourth quarter of 1992 as a result of a reduction in inventory levels brought about as a result of the Company's continuing efforts to match production volumes to sales levels which, in the fourth quarter of 1992, were below expectations. These factors were partially offset by the absence of a \$3.8 million one-time charge associated with the termination of GAF's Equity Appreciation Plan in 1991 (GAF maintained an Equity Appreciation Plan, which was terminated upon completion of the initial public offering). See Note 9 of Notes to Consolidated Financial Statements. The strong performance by the Company's mineral products business in 1992 resulted from increased roofing demand, which was fueled in part by damage from several storms which occurred in many areas of the United States.

Domestic operating income and non-U.S. operating income in 1992 declined by \$11.7 and \$2.5 million, respectively. The larger decrease in domestic operating income as compared to non-U.S. operating income was primarily due to the higher manufacturing costs for specialty derivative chemicals discussed above, which costs were not allocated to non-U.S. operations.

A customer of the Company's mineral products business determined not to renew its contract with the Company effective January 1, 1993 (the contract's expiration) and to place a portion of its contract volume with another supplier, such portion representing approximately 3% of the Company's total annual sales.

Interest expense for 1992 was \$30.6 million, a reduction of \$22.1 million from \$52.7 million in 1991. The reduction was due both to lower average debt outstanding and lower interest rates.

Other income was \$2.7 million in 1992, compared with other expense of \$1.4 million in 1991. This category is comprised of foreign exchange gains/losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, other nonoperating and nonrecurring items of income and

expense, and net investment income. The improvement in 1992 was due primarily to higher income from investments and lower foreign exchange losses.

#### JOINT VENTURE

GAF-Hüls' sales were \$104.2 million in 1991, \$99.4 million in 1992 and \$84.9 million in 1993. The decline in sales was primarily the result of lower demand from European markets as a result of an economic slowdown, increased competition from the entry of another producer into the European market, and lower purchases of butanediol from GAF-Hüls by the Company.

The Company's equity in the earnings of the joint venture declined from \$7.9 million in 1991 to \$6 million in 1992 and \$2.1 million in 1993. The recent decrease in earnings of the joint venture is attributable to the recession in Europe and the entrance of new suppliers of the products which it produces, which have resulted in decreased pricing and lower sales volumes, and raw material cost increases. The Company expects a continued decline in earnings of the joint venture in 1994. The recovery of the European economy and the aggressiveness of the new suppliers will be important elements in determining the profitability of the joint venture in the future.

#### LIQUIDITY AND FINANCIAL CONDITION

During 1993, the Company generated cash from operations of \$88 million, and reinvested \$62.9 million for capital programs and the acquisition of the MTM fine chemicals business, for a net cash inflow of \$25.1 million before financing activities.

Net cash used in financing activities in 1993 was \$24.1 million, principally comprised of a \$125.3 million paydown of borrowings under the Company's bank credit agreement ("Credit Agreement"), in part offset by \$24.3 million of proceeds from the sale of accounts receivable, \$25.1 million proceeds from the termination of interest rate swap agreements, \$46.3 million of additional borrowings from an affiliate, and \$10.6 million of additional short-term borrowings. The Company

declared dividends of \$5 million (\$.05 per share) on its common stock during 1993.

As a result of the foregoing factors, cash and short-term investments increased by \$1.1 million during 1993 to \$82.8 million. The Company has short-term investments in equity and debt securities, and in addition, at times the Company holds certain common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short position securities. The Company is exposed to market risk in connection with its short-term investments. See Note 2 of Notes to Consolidated Financial Statements.

In connection with its 9% Senior Notes, the Company entered into interest rate swap agreements in 1992, which were terminated and replaced with new swap agreements in 1993. See Note 8 of Notes to Consolidated Financial Statements.

In June 1993, the Company completed a transaction involving the sale of its domestic trade accounts receivable ("domestic receivables"), without recourse, to a non-affiliated third party for a maximum of \$25 million in cash to be made available to the Company based on eligible domestic receivables outstanding from time to time. As of December 31, 1993, the Company had sold \$23.7 million of domestic receivables and had received \$24.3 million in proceeds. Proceeds provided to the Company are adjusted on the fifteenth business day of each month, based on domestic receivables as of the end of the prior month. Accordingly, prior to each monthly adjustment, the Company may have a receivable from or payable to the purchaser of the domestic receivables. As of December 31, 1993, the Company had a payable to the purchaser of \$.6 million. See Note 5 of Notes to Consolidated Financial Statements.

On October 5, 1993, G-I Holdings Inc. ("G-I Holdings"), the indirect owner of 80.6% of the Company's common stock, issued Senior Discount Notes due 1998. Under the indenture related to such notes, the incurrence by the Company of additional debt and the issuance by the Company of preferred stock would be restricted unless, subject to certain exceptions, the ratio of the Company's consolidated

## *Management's Discussion and Analysis of Financial Condition and Results of Operations* continued

income before income tax, interest, depreciation and amortization expense to its consolidated interest expense for its most recently completed four fiscal quarters is at least 2 to 1. For the four quarters ended December 31, 1993, such ratio was 4.91 to 1.

As of December 31, 1993, the Company was contingently liable under letters of credit aggregating \$9.5 million, of which \$2.5 million secures amounts due under the Company's industrial revenue bond obligation and \$1.9 million was issued for the benefit of affiliates of the Company. The Credit Agreement permits the Company to make loans to affiliates and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to \$50 million; as of December 31, 1993, \$1.9 million of such amount had been utilized for the aforementioned letters of credit.

Borrowings under the Credit Agreement are subject to the application of certain financial covenants contained in such agreement which provide that (1) the Company will not permit the ratio of its consolidated income before income tax, interest, depreciation and amortization expense to its consolidated interest expense for its most recently completed four fiscal quarters to be less than 3 to 1 for periods ending on or before December 31, 1994 and 3.25 to 1 for periods after December 31, 1994, and (2) the Company will not permit the ratio of its total consolidated indebtedness to the sum of adjusted net worth plus total consolidated indebtedness to be more than .55 to 1 on any date on or prior to December 31, 1994 and .50 to 1 on any date after December 31, 1994. As of December 31, 1993, the application of the foregoing tests did not restrict amounts available for borrowing under the Credit Agreement.

The Credit Agreement permits the Company to pay cash dividends and make other restricted payments (as defined) of up to 50% of the sum of its consolidated net income after January 1, 1992 plus the aggregate net cash proceeds from issuance of the Company's common stock after July 23, 1992, provided that after giving effect to such dividends and restricted payments, the ratio of the Company's operating cash flow to fixed charges (including cash dividends and restricted payments) for its most

recently completed four fiscal quarters is at least 1 to 1. If the ratio is lower than 1 to 1, the Company is permitted under the Credit Agreement to pay cash dividends up to \$15 million in the aggregate. In addition, under the indenture relating to the Company's 9% Senior Notes, the aggregate amount of cash dividends and other restricted payments made by the Company after September 30, 1991 may not exceed the sum of \$50 million, 75% of the Company's consolidated net income (or 100% of its consolidated net loss) on a cumulative basis since such date and the aggregate net proceeds received by the Company since such date for shares of its capital stock or debt converted into shares of its capital stock. As of December 31, 1993, under the most restrictive of the foregoing tests, the Company could have paid dividends in the aggregate amount of \$15 million.

As of December 31, 1993, the Company's scheduled repayments of long-term debt for the twelve months ending December 31, 1994 aggregated \$.7 million.

The Company intends to construct a European manufacturing facility to meet the needs of its European business. The Company is currently considering a number of alternative plant sites and plans to develop the facility in stages over a four-to-six year period. The Company anticipates utilizing internally generated funds and/or independent financing to fund the cost of the project. The first phase of the European plant would increase the Company's polymer capacity. The Company's sales have not been restricted by capacity restraints and the Company believes that it has sufficient capacity at its disposal to meet demand until the European plant is on line.

Fluctuations in the value of foreign currencies may cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot estimate in any meaningful way the possible effect of such fluctuations upon future income. The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies, including entering into foreign exchange contracts from time to time in order to hedge its exposure. As of December 31, 1993 and 1992, outstanding foreign exchange

contracts were \$70.5 and \$4.3 million, respectively. See Note 2 of Notes to Consolidated Financial Statements for further discussion.

The parent corporations of the Company, including GAF, G-I Holdings, G Industries Corp. and GCC, are essentially holding companies without independent businesses or operations and, as such, are dependent upon the cash flow of their subsidiaries, including the Company, in order to satisfy their obligations, including the asbestos-related claims discussed below and certain potential tax liabilities including tax liabilities relating to Rhone-Poulenc Surfactants and Specialties, L.P. For a description of such obligations, see Notes 4 and 17 of Notes to Consolidated Financial Statements. In the event that such parent corporations were unable to meet their cash needs from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise, to make loans to its parent corporations or cause GCC to sell shares of the Company's common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries should have a material adverse effect on the operations, liquidity or capital resources of the Company.

Given the current ownership structure of the Company, the ability of the Company to utilize common stock financings for capital expenditures, acquisitions and other corporate purposes, and the ability of GCC to sell shares of the Company's common stock owned by it, are presently impeded because GCC would be unable to utilize significant tax benefits or to receive tax sharing payments, and significant adverse tax consequences to GCC would occur, in the event that GCC were to own less than 80% of the outstanding shares of the Company's common stock. Such tax consequences would be eliminated over time as the Company generates earnings. In light of the foregoing, as well as the current market price of the Company's common stock, GCC has advised the Company that it does not currently intend to dispose of shares of the Company's common stock, and the Company does not currently intend to issue shares of its common stock.

Sales, operating income and identifiable assets by geographic area are set forth in Note 14 of Notes to Consolidated Financial Statements. For information with respect to income taxes, see Note 4 of Notes to Consolidated Financial Statements.

The Company does not believe that inflation has had an effect on its results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste disposal facility at its Linden, New Jersey property, which designation has been appealed to the Courts by the City of Linden. If the Company is successful in securing the necessary permits to construct and operate the hazardous waste facility, the Company intends to develop and operate the facility in a separate subsidiary either on its own or in a joint venture with a suitable partner. If the Company develops and operates the facility on its own, it would require the consent of the banks under the Credit Agreement. The Company estimates that the cost of constructing the facility will be approximately \$100 million. If approved, the facility is anticipated to be in operation by 1997, although there can be no assurance as to when operations will begin. If the required approvals and permits are obtained, the Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor and, accordingly, would not expect such facility to impact materially the Company's liquidity or capital resources.

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and similar state laws, in which recovery is sought for the cost of cleanup of contaminated waste disposal sites. A number of the Environmental Claims are in the early stages and others have been dormant for protracted periods.

At each site, the Company anticipates, although

# *Management's Discussion and Analysis of Financial Condition and Results of Operations* continued

INTERNATIONAL SPECIALTY PRODUCTS INC.

there can be no assurance, that liability will be apportioned among the companies found to be responsible for the presence of hazardous substances at the site. Although it is difficult to predict the ultimate resolution of these claims, based on the Company's evaluation of the financial responsibility of the parties involved and their insurers, the merits of the defenses of the Company and other parties and the nature and terms of cost sharing arrangements now in place among the potentially responsible parties, the Company estimates that its liability in respect of all Environmental Claims, as of December 31, 1993, will be approximately \$17.2 million. After a reduction for anticipated insurance recoveries (discussed below) of \$7 million, the Company estimates that its net liability will be approximately \$10.2 million.

Although the Company believes it is entitled to substantially full defense and indemnity under its insurance policies for all Environmental Claims, the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for the matters discussed above. Nevertheless, the insurers have agreed to reimburse the Company for a substantial portion of its indemnity obligations in a number of these cases and the Company has also reached agreements with certain of its insurers regarding the Company's defense costs and other related expenses and, pursuant to these agreements, certain insurers are currently paying a portion of the Company's defense costs. After considering the relevant legal issues, prevailing commercial practice in the resolution of similar claims and the agreements discussed above, the Company believes that it is probable that it will receive the anticipated insurance recoveries, although there can be no assurance in this regard.

In the opinion of the Company's management, the environmental matters referred to herein will be resolved and amounts will be paid gradually over a period of years and, accordingly, the resolution of such matters should not be material to the business, liquidity or financial position of the Company. However, adverse decisions or events, particularly as to the merits of the Company's factual and legal defenses to liability and the financial responsibility of the other parties involved at each site, could cause the

Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

GAF has advised the Company that as of December 31, 1993, GAF had been named as a co-defendant in approximately 53,000 lawsuits alleging health claims relating to the inhalation of asbestos fiber and a co-defendant in 23 lawsuits alleging economic and property damage or other injuries caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from various premises. Neither the Company nor the assets or operations of the Company or GCC, which was operated as a division of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. Consequently, the Company believes that such claims should not have a material effect on the Company's business, financial condition or results of operations. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims, but the Company cannot predict whether any such claims will be asserted against it or the outcome of any litigation relating to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of common stock of the Company, and such enforcement could result in a change of control of the Company. For further information regarding asbestos-related claims against GAF, see Note 17 of Notes to Consolidated Financial Statements.

## Selected Financial Data

INTERNATIONAL SPECIALTY PRODUCTS INC.

Set forth below are selected consolidated financial data of the Company and its predecessor company. The capital structure and accounting bases of the assets and liabilities of the Company subsequent to April 2, 1989 differ from those of the predecessor company for prior periods as a result of the Acquisition (see Note 1 of Notes to Consolidated Financial Statements). Financial data of the predecessor company are presented on a historical cost basis. Financial data of the Company reflect the Acquisition under the purchase method of accounting. Accordingly, financial data for periods

subsequent to the Acquisition are not comparable with data for periods prior thereto, because the periods subsequent to the Acquisition reflect interest expense on Acquisition borrowings as well as non-cash charges that are not applicable to the predecessor company, consisting of goodwill amortization and depreciation of increased asset values resulting from the Acquisition. Such non-cash charges amounted to \$22.4, \$22.3, \$22.4, \$22.3 and \$16.5 million for the years 1993, 1992, 1991, 1990 and the nine months ended December 31, 1989, respectively.

(Dollars in thousands, except per share amounts)	Year Ended December 31,				Company	Predecessor Company
	1993	1992	1991	1990	Nine Months Ended December 31, 1989	First Quarter Ended April 2, 1989
Operating data:						
Net sales	\$ 548,252	\$ 570,757	\$ 525,786	\$ 511,652	\$ 354,677	\$ 114,885
Operating income	65,091	107,664	121,852	116,764	77,657	27,232
Interest expense	24,500	30,595	52,693	85,224	66,434	2,032
Income before income taxes	49,823	85,782	75,682	42,037	20,705	29,244
Income before cumulative effect of accounting change	29,558	57,182	50,646	30,559	12,192	18,248
Net income	29,558	50,113	50,646	30,559	12,192	18,248
Earnings per common share:						
Income before cumulative effect of accounting change	\$ .30	\$ .57	\$ .56	\$ .38	\$ .15	N/A
Net income	\$ .30	\$ .50	\$ .56	\$ .38	\$ .15	N/A
Dividends per common share	\$ .05	\$ .05	\$ —	\$ —	\$ —	N/A
Other data:						
Operating margin	11.9%	18.9%	23.2%	22.8%	21.9%	23.7%
Depreciation	\$ 28,737	\$ 25,610	\$ 23,247	\$ 22,308	\$ 14,641	\$ 2,314
Goodwill amortization	13,856	13,706	13,825	13,754	10,061	—
Capital expenditures and acquisitions	62,858	70,464	34,422	35,627	54,884	3,837
					Company	
					December 31,	
	1993	1992	1991	1990	1989	
Balance Sheet data:						
Total working capital	\$ 78,263	\$ 179,310	\$ 94,715	\$ 65,658	\$ 95,400	
Total assets	1,243,315	1,270,418	1,151,175	1,140,592	1,137,176	
Long-term debt	367,722	493,025	413,746	698,044	734,018	
Stockholders' equity	534,012	516,999	483,797	154,621	143,764	



# Consolidated Statements of Income

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands, except per share amounts)	Year Ended December 31,		
	1993	1992	1991
Net sales	\$ 548,252	\$ 570,757	\$ 525,786
Costs and expenses:			
Cost of products sold	329,517	324,876	279,671
Selling, general and administrative	125,961	124,511	110,438
Provision for restructuring	13,827	-	-
Goodwill amortization	13,856	13,706	13,825
Total costs and expenses	483,161	463,093	403,934
Operating income	65,091	107,664	121,852
Interest expense	(24,500)	(30,595)	(52,693)
Equity in earnings of joint venture	2,051	5,996	7,894
Other income (expense), net	7,181	2,717	(1,371)
Income before taxes and cumulative effect of accounting change	49,823	85,782	75,682
Income taxes:			
Annual provision - current and deferred	(17,320)	(28,600)	(25,036)
Adjustment of deferred tax liability for change in tax rate	(2,945)	-	-
Income before cumulative effect of accounting change	29,558	57,182	50,646
Cumulative effect of change in accounting for postretirement benefits other than pensions, net of \$3,913 income tax benefit	-	(7,069)	-
Net income	\$ 29,558	\$ 50,113	\$ 50,646
Earnings per common share:			
Income before cumulative effect of accounting change	\$ .30	\$ .57	\$ .56
Cumulative effect of accounting change	-	(.07)	-
Net income	\$ .30	\$ .50	\$ .56
Weighted average number of common shares outstanding	99,889	99,889	90,194

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated Balance Sheets

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands)	December 31,	
	1993	1992
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 11,022	\$ 11,162
Short-term investments	71,764	70,517
Accounts receivable, trade, less reserve of \$2,313 and \$2,105	41,656	66,466
Accounts receivable, other	7,650	8,684
Inventories	103,700	105,528
Other current assets	14,229	11,874
Receivable from related parties, net	-	8,172
Total Current Assets	250,021	282,403
Property, plant and equipment, net	478,514	452,072
Excess of cost over net assets of businesses acquired, net of accumulated amortization of \$65,202 and \$51,346	457,084	470,939
Other assets	57,696	65,004
Total Assets	\$ 1,243,315	\$ 1,270,418
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Short-term debt	\$ 12,848	\$ 2,211
Current maturities of long-term debt	681	570
Loan payable to related party	66,787	20,470
Accounts payable	39,607	33,761
Accrued liabilities	45,388	33,583
Payable to related parties, net	3,583	-
Income taxes	2,864	12,498
Total Current Liabilities	171,758	103,093
Long-term debt less current maturities	367,722	493,025
Deferred income taxes	92,511	102,535
Other liabilities	77,312	54,766
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value per share; 20,000,000 shares authorized	-	-
Common stock, \$.01 par value per share; 300,000,000 shares authorized:		
99,888,646 shares issued and outstanding	999	999
Additional paid-in capital	504,572	504,572
Excess of purchase price over adjusted historical cost of Predecessor Parent		
Company shares owned by GAF's stockholders	(63,483)	(63,483)
Retained earnings	92,738	68,174
Cumulative translation adjustment and other	(814)	6,737
Total Stockholders' Equity	534,012	516,999
Total Liabilities and Stockholders' Equity	\$ 1,243,315	\$ 1,270,418

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated Statements of Cash Flows

INTERNATIONAL SPECIALTY PRODUCTS INC.

	Year Ended December 31,		
(Thousands)	1993	1992	1991
Cash and short-term investments, beginning of year	\$ 81,679	\$ 10,085	\$ 19,317
Cash provided by operating activities:			
Net income	29,558	50,113	50,646
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	28,737	25,610	23,247
Goodwill amortization	13,856	13,706	13,825
Cumulative effect of accounting change	-	7,069	-
Provision for restructuring	13,827	-	-
Deferred income taxes	(13,542)	6,844	2,455
(Increase) decrease in working capital items	2,868	(11,348)	(22,414)
(Increase) decrease in other assets	6,586	(850)	(12,024)
Increase (decrease) in other liabilities	1,847	(1,539)	(6,485)
(Increase) decrease in net receivable from/payable to related parties	10,234	(3,010)	(1,741)
Change in cumulative translation adjustment	(6,291)	(10,246)	(215)
Other, net	340	948	(189)
Net cash provided by operating activities	88,020	77,297	47,105
Cash used in investing activities:			
Capital expenditures and acquisitions	(62,858)	(70,464)	(34,422)
Cash provided by (used in) financing activities:			
Proceeds from sale of accounts receivable	24,284	-	-
Proceeds from termination of interest rate swap agreements	25,069	-	-
Proceeds from initial public offering	-	-	281,272
Increase (decrease) in short-term debt	10,637	2,106	(9,212)
Proceeds from debt financing	-	200,000	-
Repayments of long-term debt	(125,820)	(145,899)	(291,680)
Loan from related party	46,317	20,470	-
Financing fees and expenses	(176)	(6,922)	-
Dividends and distributions	(4,994)	(4,994)	(27,591)
Capital contribution by parent company	-	-	25,232
Other, net	628	-	64
Net cash provided by (used in) financing activities	(24,055)	64,761	(21,915)
Net change in cash and short-term investments	1,107	71,594	(9,232)
Cash and short-term investments, end of year	\$ 82,786	\$ 81,679	\$ 10,085

# Consolidated Statements of Cash Flows continued

INTERNATIONAL SPECIALTY PRODUCTS INC.

	Year Ended December 31,		
(Thousands)	1993	1992	1991
<b>Supplemental Cash Flow Information:</b>			
Effect on cash from (increase) decrease in working capital items*:			
Accounts receivable	\$ 2,499	\$ 1,915	\$ 8,752
Inventories	4,306	(8,083)	(10,120)
Other current assets	1,239	4,899	(2,219)
Accounts payable	5,036	(2,746)	(1,782)
Accrued liabilities	(896)	(6,369)	(12,074)
Income taxes	(9,316)	(964)	(4,971)
Net effect on cash from (increase) decrease in working capital items	\$ 2,868	\$ (11,348)	\$ (22,414)

\* Working capital items exclude cash, short-term investments, short-term debt and the loan payable to related party. Working capital acquired in connection with acquisitions is accounted for within "Capital expenditures and acquisitions" in the Consolidated Statements of Cash Flows. The effects of reclassifications between noncurrent and current assets and liabilities are excluded from the amounts shown above. In addition, the decrease in accounts receivable shown above for 1993 is before giving effect to the proceeds from the sale of the Company's domestic trade accounts receivable (see Note 5 of Notes to Consolidated Financial Statements), which is reflected in cash from financing activities in the Consolidated Statements of Cash Flows.

Cash paid during the year for:			
Interest (net of amount capitalized)	\$ (23,969)	\$ (27,720)	\$ (55,577)
Income taxes (including taxes paid pursuant to the Tax Sharing Agreement)	(38,703)	(24,753)	(25,211)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated Statements of Stockholders' Equity

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Thousands)	Capital Stock and Additional Paid-in Capital	Cumulative Translation Adjustment and Other	Retained Earnings
December 31, 1990	\$ 199,067	\$ 19,037	\$ -
Net income	-	-	50,646
Proceeds from initial public offering	281,272	-	-
Translation adjustment	-	(215)	-
Dividends and distributions to parent company	-	-	(27,591)
Capital contribution by parent company	25,232	-	-
Unfunded pension liability	-	(168)	-
December 31, 1991	\$ 505,571	\$ 18,654	\$ 23,055
Net income	-	-	50,113
Translation adjustment	-	(10,246)	-
Dividends declared (\$.05 per common share)	-	-	(4,994)
Unfunded pension liability	-	(1,671)	-
December 31, 1992	\$ 505,571	\$ 6,737	\$ 68,174
Net income	-	-	29,558
Translation adjustment	-	(6,291)	-
Dividends declared (\$.05 per common share)	-	-	(4,994)
Unfunded pension liability	-	(1,260)	-
December 31, 1993	\$ 505,571	\$ (814)	\$ 92,738

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

## Note

### 1

#### FORMATION OF THE COMPANY

International Specialty Products Inc. (the "Company") was formed on April 25, 1991 and is an 80.6% owned subsidiary of GAF Chemicals Corporation ("GCC"), which is a wholly owned subsidiary of G Industries Corp. ("G Industries"), which in turn is a wholly owned subsidiary of G-I Holdings Inc. ("G-I Holdings"). G-I Holdings is a wholly owned subsidiary of GAF Corporation ("GAF"). On April 26, 1991, the Company issued 10 shares of its common stock to GCC in exchange for \$10.00. The Company acquired all the shares of the capital stock of the subsidiaries of GCC which owned substantially all of GCC's operating assets. The Company and its subsidiaries also assumed GCC's liabilities related to such assets and certain intercompany notes then outstanding. In connection with these transactions, the Company issued an additional 80,499,990 shares of its common stock to GCC and entered into certain agreements with its affiliates (see Notes 4 and 11). The foregoing transactions did not result in any change in the accounting bases of the Company's assets and liabilities.

The accompanying consolidated financial statements have been prepared on a basis which retroactively reflects the formation of the Company, as discussed above, for all periods presented. Stockholders' equity, long-term debt and the related interest expense and income tax effect thereon have been reflected retroactively for each of the periods presented. Excess cash generated prior to July 1, 1991 has been reflected as dividends and/or distributions to GCC for all periods presented.

In July 1991, the Company completed an initial public offering of 19,388,646 shares, or 19.4%, of its common stock. The net proceeds of \$281.3 million from the initial public offering were paid by the Company to G Industries to reduce the Company's then-existing intercompany term note.

A predecessor company to GAF (the "Predecessor Parent Company") was acquired on March 29, 1989 in a management-led buyout (the "Acquisition"). The Acquisition was accounted for under the purchase method of accounting. Accordingly, the historical book values of the assets and liabilities of GCC's predecessor company prior to the Acquisition were adjusted to their fair values as estimated at March 29, 1989. As a result, an excess of cost over net assets of businesses acquired ("goodwill") was recorded, of which \$494.5 million was allocated to the Company.

Since certain members of the management group beneficially owned shares of the Predecessor Parent

Company's common stock before the Acquisition and own shares of GAF after the Acquisition, the purchase method of accounting does not apply to their shares. Accordingly, for accounting purposes, stockholders' equity reflects the total shares of the Predecessor Parent Company owned by the management group at their respective adjusted historical costs, reduced by the consideration paid by GAF for the Predecessor Parent Company shares owned by the management group (which consideration included payments by the Predecessor Parent Company to cancel outstanding options for stock of the Predecessor Parent Company), resulting in a reduction in stockholders' equity, of which \$63.5 million was allocated to the Company.

## Note

### 2

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Principles of Consolidation*

The accounts of all of the Company's subsidiaries are included in the accompanying consolidated financial statements. All significant intercompany transactions and balances have been eliminated. The Company's 50% ownership of a foreign chemical manufacturing company is accounted for by the equity method (see Note 12).

##### *Short-Term Investments*

The Company considers its short-term investments in equity and debt securities to be cash equivalents. Such investments are stated at the lower of cost or market, with an aggregate cost at December 31, 1993 of \$71.8 million and a market value of \$72.2 million at that date. The aggregate cost at December 31, 1992 was \$70.5 million, with a market value of \$71.7 million at that date. Net investment income is included in "Other income (expense), net" in the Consolidated Statements of Income, and in 1993 and 1992 included \$10.9 and \$2.8 million, respectively, of net realized gains from sales of securities. The determination of cost in computing realized gains and losses on investments is based on the specific identification method.

In addition to the foregoing, at times the Company holds certain common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short position securities. As of December 31, 1993 and 1992, the Company had \$7.9 and \$19.1 million, respectively, of short positions in common stocks, based on market value. With respect to securities sold short, the Company is exposed to the risk of market loss if the market value of the securities sold short should increase and the anticipated exchange or

conversion does not occur as expected. With respect to securities held long, the Company is exposed to the risk of market loss if the market value of securities held long should decline.

Statement of Financial Accounting Standards ("SFAS") No. 115, which became effective January 1, 1994, requires that the Company recognize unrealized gains and losses on its short-term investments as part of current income. The cumulative effect as of January 1, 1994 of adopting SFAS No. 115 was immaterial.

#### **Inventories**

Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on the FIFO (first-in, first out) method.

#### **Depreciation and Capitalized Interest**

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized as part of the cost of property, plant and equipment.

#### **Interest Rate Swap Agreements**

In connection with the issuance of the 9% Senior Notes, the Company has entered into interest rate swap agreements ("swaps") (see Note 8). Under the terms of the swaps, the effective interest cost to the Company is equivalent to a rate which varies with LIBOR, and accordingly, the Company's periodic interest expense for debt with respect to which swaps have been consummated will vary depending on LIBOR. The Company is exposed to credit loss in the event of nonperformance by the commercial bank counterparties to the swaps. Any gains or losses as a result of terminating such swaps are deferred and recognized over the remaining life of the applicable debt.

#### **Foreign Exchange Contracts**

From time to time, the Company enters into a variety of foreign exchange instruments with off-balance-sheet risk in order to hedge a portion of both its borrowings denominated in foreign currency and its purchase commitments related to the operations of foreign affiliates. Gains and losses on instruments used to hedge purchase commitments are deferred, and amortization is included in the measurement of the foreign currency transactions hedged.

Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The value of such contracts varies with changes in the market exchange rates. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward

contract agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company does not generally require collateral or other security to support these financial instruments.

As of December 31, 1993 and 1992, outstanding forward foreign exchange contracts were \$70.5 and \$4.3 million, respectively. As of December 31, 1993 and 1992, the amount of unrealized gain on such instruments was immaterial.

#### **Foreign Currency Translation**

Assets and liabilities of foreign subsidiaries, other than those located in highly inflationary countries, are translated at year-end exchange rates. The effects of these translation adjustments are reported in a separate component of stockholders' equity, "Cumulative translation adjustment". Income and expenses are translated at average exchange rates prevailing during the year. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, and translation adjustments of subsidiaries in countries with highly inflationary economies, are included in "Other income (expense), net".

#### **Excess of Cost Over Net Assets of Businesses Acquired**

Excess of cost over net assets of businesses acquired is amortized on the straight-line method over a period of approximately 40 years. The Company believes that the excess of cost over net assets of businesses acquired is recoverable based on expected future operating income and cash flows. The primary financial indicator to assess recoverability of goodwill is operating income before amortization of goodwill. The assessment is based on an undiscounted analysis.

#### **Debt Issuance Costs**

Debt issuance costs (\$5.2 and \$6.4 million at December 31, 1993 and 1992, respectively) are included in "Other assets" in the Consolidated Balance Sheets, and are amortized to expense over the life of the related debt.

#### **Research and Development**

Research and development costs are charged to operations as incurred and amounted to \$21.2, \$21.1 and \$17.8 million for the years 1993, 1992 and 1991, respectively.

#### **Note**

#### **3**

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#### **PROVISION FOR RESTRUCTURING**

In the fourth quarter of 1993, the Company recorded a pre-tax provision of \$13.8 million, primarily related to the Company's cost reduction program announced in October 1993.

## Note

## 4

## INCOME TAXES

Income tax (provision) benefit consists of the following:

(Thousands)	Year Ended December 31,		
	1993	1992	1991
Federal:			
Current	\$ (29,555)	\$ (13,648)	\$ (14,225)
Deferred	15,726	(6,844)	(2,455)
Total Federal	(13,829)	(20,492)	(16,680)
Foreign - current	(2,984)	(7,181)	(7,440)
State and local:			
Current	(1,268)	(927)	(916)
Deferred	761	-	-
Total state and local	(507)	(927)	(916)
Income tax provision	\$ (17,320)	\$ (28,600)	\$ (25,036)

As a result of legislation enacted in 1993 which increased the maximum Federal corporate income tax rate by 1%, the Company recorded a retroactive income tax provision of \$2.9 million in 1993, representing the effect of the 1% increase in the tax rate on the Company's net deferred tax liability as of December 31, 1992.

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pre-tax income, and the income tax provision reflected in the Consolidated Statements of Income are as follows:

(Thousands)	Year Ended December 31,		
	1993	1992	1991
Statutory tax provision	\$ (17,438)	\$ (29,166)	\$ (25,732)
Impact of:			
Foreign operations	3,116	3,589	3,933
Nondeductible good-will amortization	(4,849)	(4,660)	(4,701)
Percentage depletion	1,868	2,152	1,947
Other, net	(17)	(515)	(483)
Income tax provision	\$ (17,320)	\$ (28,600)	\$ (25,036)

In 1992, the Company adopted SFAS No. 109, retroactive to March 29, 1989, the date of the Acquisition. SFAS No. 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. The new standard also requires that fixed assets, which were recorded at the time of the Acquisition on a net-of-tax basis, be reflected at their pre-tax amounts, with a corresponding increase in deferred tax liabilities. As a result, the Company's depreciation expense was increased by approximately \$3.5 million per year, and its income tax provision was decreased by approximately the same

amount. Consequently, the adoption of SFAS No. 109 did not have a material effect on the Company's net income or earnings per share.

Under SFAS No. 109, deferred tax assets and liabilities are determined based on the differences between the tax bases and book values of assets and liabilities, using enacted tax rates in effect for the years in which these differences are expected to reverse. The components of the net deferred tax liability are as follows:

(Thousands)	December 31,	
	1993	1992
Deferred tax liabilities related to:		
Property, plant and equipment	\$ 107,998	\$ 106,396
Other	4,564	4,813
Total deferred tax liabilities	112,562	111,209
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	(11,931)	(7,725)
Deferred income	(8,276)	-
Foreign tax credits not yet utilized under the Tax Sharing Agreement	(2,910)	(3,621)
All other deferred tax assets	(5,518)	(2,394)
Total deferred tax assets	(28,635)	(13,740)
Net deferred tax liability	83,927	97,469
Deferred tax assets reclassified to other current assets	8,584	5,066
Noncurrent deferred tax liability	\$ 92,511	\$ 102,535

The Company and each of its domestic subsidiaries have entered into an agreement (the "Tax Sharing Agreement") with GAF and G Industries with respect to the payment of Federal income taxes and certain related matters. During the term of the Tax Sharing Agreement, the Company is obligated to pay to G Industries an amount equal to those Federal income taxes the Company would have incurred if, subject to certain exceptions, the Company (on behalf of itself and its domestic subsidiaries) filed its own separate Federal income tax return. These exceptions include, among others, that the Company may utilize certain favorable tax attributes - i.e., losses, deductions and credits (except for a certain amount of foreign tax credits and, in general, net operating losses) - only at the time such attributes reduce the Federal income tax liability of GAF and its subsidiaries (the "GAF consolidated group"), and that the Company may carry back or carry forward its favorable tax attributes only after taking into account current tax attributes of the GAF consolidated group. In general, subject to the foregoing limitations, unused tax attributes will carry forward for use in reducing amounts payable by the Company to G Industries in future years. Subject to certain exceptions, actual payment for such attributes will be made by G Industries to the Company only when GAF receives an



actual refund of tax from the Internal Revenue Service or, under certain circumstances, when GAF no longer owns more than 50% of the Company. Foreign tax credits not utilized by GAF will be refunded by G Industries to the Company, if such credits expire unutilized, upon the termination of the statute of limitations for the year of expiration. The net deferred tax liability is ultimately payable to G Industries.

Under certain circumstances, the provisions of the Tax Sharing Agreement result in the Company having a greater current tax liability thereunder than it would have had if it (and its domestic subsidiaries) had filed its own separate Federal income tax return. Moreover, under the Tax Sharing Agreement, the Company and each domestic subsidiary are responsible for any taxes that would be payable by reason of any adjustment to the tax returns of GAF or its subsidiaries, for years prior to adoption of the Tax Sharing Agreement, relating to the business or assets of the Company or any of its domestic subsidiaries; in addition, the other subsidiaries of the Company are responsible for their respective taxes. The Tax Sharing Agreement provides for analogous principles to be applied to any consolidated, combined or unitary state or local income taxes. Under the Tax Sharing Agreement, GAF makes all decisions with respect to all matters relating to taxes of the GAF consolidated group.

The Company and each of its domestic subsidiaries join in the filing of a consolidated Federal income tax return with GAF. As members of the GAF consolidated group, the Company and each of its domestic subsidiaries are severally liable for all Federal income tax liabilities of every member of the GAF consolidated group, including tax liabilities not related to the business or assets of the Company and its domestic subsidiaries, although the Company has been indemnified by the other members of the GAF consolidated group for tax liabilities not related to the business or assets of the Company and its domestic subsidiaries.

On January 20, 1993, Rhone-Poulenc Surfactants and Specialties, Inc. ("RP") filed an action against GCC in Delaware Chancery Court (New Castle County) seeking a declaratory judgment that RP could exercise its alleged right to retire substantially all of GCC's interest in Rhone-Poulenc Surfactants and Specialties, L.P. (the "Surfactants Partnership") on or before May 13, 1993. The Court dismissed RP's complaint, without prejudice, and indicated that GCC had a "bona fide claim" (although not finally established) against RP for "abusive transfer pricing" and that there was a substantial question as to RP's good faith in seeking to exercise its alleged right to retire GCC's interest in the Surfactants Partnership. Notwithstanding such ruling,

RP notified GCC that it intended to retire GCC's interest in the Surfactants Partnership.

On June 4, 1993, GCC filed suit against RP in the 23rd Judicial District Court of Brazoria County, Texas, asserting claims against RP relating to the Surfactants Partnership for breaches of fiduciary duties, breach of contract, common law conspiracy, negligence and seeking damages and injunctive relief. On August 4, 1993, the court issued a temporary injunction enjoining RP from terminating GCC's interest in the Surfactants Partnership, and found that GCC had established both a prima facie case supporting its claims against RP for breach of fiduciary duty and a probable right on final trial to a permanent injunction. While RP has filed a notice of appeal from the temporary injunction and trial on the merits is scheduled for July 1, 1994, the litigation between the parties has been suspended on account of the pendency of settlement discussions between the parties. GCC expects to prevail in obtaining a permanent injunction if a settlement of this matter is not reached.

In connection with the creation of the Surfactants Partnership, GCC recorded a deferred tax liability in the amount of \$119 million, which amount is reflected as a liability on the consolidated balance sheet of G-I Holdings, and has been increased to \$122.5 million as a result of the 1% increase in the Federal corporate income tax rate enacted in 1993. In certain circumstances, including if RP were to retire substantially all of GCC's interest in the Surfactants Partnership before February 12, 1995, GCC would be required to satisfy this liability (subject to reduction to reflect utilization of tax attributes of the GAF consolidated group). However, as a result of the temporary injunction, payment of this liability is not expected earlier than December 1994 under present circumstances and, if such liability were required to be satisfied, the GAF consolidated group presently projects that it would pay approximately \$65 million at such time after taking into account the utilization of net operating loss carryforwards and other favorable tax attributes. There can be no assurance that the GAF consolidated group will not ultimately be required to pay this tax liability as early as December 1994. G Industries has assumed, and G Industries and GAF have agreed to jointly and severally indemnify the Company against, such tax liability. The Company is a member of the same consolidated group as GCC and, subject to such indemnification, would be severally liable for any tax liability imposed in connection with the retirement of GCC's interest in the Surfactants Partnership should GCC, G Industries and GAF be unable to satisfy such liability. GAF has advised the Company that, in the event the tax liability becomes payable, GAF believes that it will have access to

sufficient funds at that time to satisfy this liability if so required. As of December 31, 1993, the stockholder's equity of G-I Holdings was a deficit of \$42.6 million, and the Company had loans payable to G-I Holdings of \$66.8 million. See Note 11 for information regarding related party transactions.

## Note 5

### SALE OF ACCOUNTS RECEIVABLE

In June 1993, the Company completed a transaction involving the sale of its domestic trade accounts receivable ("domestic receivables"), without recourse, to a non-affiliated third party for a maximum of \$25 million in cash to be made available to the Company based on eligible domestic receivables outstanding from time to time. The effective cost to the Company (by way of a discount on the sale of the domestic receivables), which totaled \$.5 million in 1993, is equal to A1+/P-1 commercial paper rates plus 0.43%, and is included in "Other income (expense), net" in the Consolidated Statement of Income.

As of December 31, 1993, the Company had sold \$23.7 million of domestic receivables and had received \$24.3 million in proceeds. Proceeds provided to the Company are adjusted on the fifteenth business day of each month, based on domestic receivables as of the end of the prior month. Accordingly, prior to each monthly adjustment, the Company may have a receivable from or payable to the purchaser of the domestic receivables. As of December 31, 1993, the Company had a payable to the purchaser of \$.6 million, which has been netted against "Accounts receivable, other" in the Consolidated Balance Sheet.

## Note 6

### INVENTORIES

At December 31, 1993 and 1992, \$48 and \$40.5 million, respectively, of domestic inventories were valued using the LIFO method. These LIFO values were less than the corresponding FIFO values by \$.8 and \$3.4 million, respectively. Inventories consist of the following:

	December 31,	
(Thousands)	1993	1992
Finished goods	\$ 66,736	\$ 69,991
Work in process	17,959	21,156
Raw materials and supplies	19,850	17,800
Total	104,545	108,947
Less LIFO reserve	(845)	(3,419)
Inventories	\$ 103,700	\$ 105,528

## Note 7

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	December 31,	
(Thousands)	1993	1992
Land and land improvements	\$ 67,494	\$ 65,326
Buildings and fixtures	74,047	71,870
Machinery and equipment	370,442	342,176
Construction in progress	69,457	50,226
Total	581,440	529,598
Less accumulated depreciation	(102,926)	(77,526)
Property, plant and equipment, net	\$ 478,514	\$ 452,072

## Note 8

### LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
(Thousands)	1993	1992
9% Senior Notes due 1999	\$ 200,000	\$ 200,000
Borrowings under revolving credit facility	127,250	252,500
Industrial revenue bond	2,400	2,970
Obligation on mortgaged property	38,125	38,125
Obligations under capital leases (Note 17)	628	-
Total long-term debt	368,403	493,595
Less current maturities	(681)	(570)
Long-term debt less current maturities	\$ 367,722	\$ 493,025

In March 1992, two domestic subsidiaries of the Company (the "Issuers") issued \$200 million of 9% Senior Notes (the "9% Notes"), due 1999. The 9% Notes are guaranteed by the Company and all of its domestic subsidiaries (the "Subsidiary Guarantors"). The Company used the net proceeds from the issuance of the 9% Notes to repay \$196 million of its then-existing borrowings from G Industries. G Industries in turn repaid a similar portion of the term loan under its then-existing bank credit agreement.

The 9% Notes are general, unsecured obligations of the Issuers. Upon issuance of the 9% Notes, the previous bank credit agreement was amended, with the Issuers assuming G Industries' obligations under the previous bank credit agreement, including the term loan and the combined revolving credit/letter of credit facility, except for obligations related to letters of credit issued on behalf of GAF Building Materials Corporation (see Note 11 for information in connection with affiliate credit arrangements). In addition, all liens on assets of

the Company securing the bank indebtedness were released, with the result that the remaining bank indebtedness and the 9% Notes rank *pari passu*.

In connection with the issuance of the 9% Notes, the Company entered into interest rate swap agreements ("swaps") with commercial banks in an aggregate notional principal amount of \$200 million. In 1993, the Company terminated the swaps, resulting in gains of \$25.1 million, and entered into new swaps. The gains were deferred and are included in "Other liabilities" in the Consolidated Balance Sheet, and are being amortized as a reduction of interest expense over the remaining life of the 9% Notes. As a result of these transactions, the effective interest cost to the Company of the 9% Notes is now equivalent to a floating rate equal to approximately 1.4% over LIBOR. The fair value of the swaps at December 31, 1993 was a loss of \$3.7 million, representing the estimated amount that would be payable by the Company if the swaps were terminated at that date.

On July 23, 1992, the Issuers, as borrowers (the "Borrowers"), entered into a new five-year bank credit agreement (the "Credit Agreement") providing for a \$400 million revolving credit/letter of credit facility. The new bank financing replaced a credit facility formerly provided by G Industries. Borrowings under the Credit Agreement bear interest at a floating rate (4.08% on December 31, 1993) based on the banks' base rate, federal funds rate, Eurodollar rate, CD rate or a competitive bid rate (which may be based on LIBOR or money market rates), at the option of the Company. All of the Borrowers' obligations under the Credit Agreement are guaranteed by the Company and its other domestic subsidiaries.

As of December 31, 1993, the Company was contingently liable under letters of credit aggregating \$9.5 million, of which \$2.5 million secures amounts due under the Company's industrial revenue bond obligation and \$1.9 million was issued for the benefit of affiliates of the Company. The Credit Agreement permits the Company to make loans to affiliates and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to \$50 million; as of December 31, 1993, \$1.9 million of such amount had been utilized for the aforementioned letters of credit.

Borrowings under the Credit Agreement are subject to the application of certain financial covenants contained in such agreement, which provide that (1) the Company will not permit the ratio of its consolidated income before income tax, interest, depreciation and amortization expense to its consolidated interest expense for its most recently completed four fiscal quarters to be less than 3 to 1 for periods ending on or before December 31, 1994 and 3.25 to 1 for periods after

December 31, 1994 and (2) the Company will not permit the ratio of its total consolidated indebtedness to the sum of adjusted net worth plus total consolidated indebtedness to be more than .55 to 1 on any date on or prior to December 31, 1994 and .50 to 1 on any date after December 31, 1994. As of December 31, 1993, the ratio referred to in clause (1) of the preceding sentence was 5.05 to 1 for the four quarters ended December 31, 1993, and the ratio referred to in clause (2) of the preceding sentence was .42 to 1 as of December 31, 1993, and therefore the application of the foregoing tests did not restrict amounts available for borrowing under the Credit Agreement. In addition, the Credit Agreement contains additional affirmative and negative covenants, including restrictions on permitted indebtedness, investments, liens, dividends, and other payments or distributions to, or other transactions with, affiliates of the Company, and restrictions on mergers and transfers of all or substantially all of the assets of the Company or its subsidiaries. The Credit Agreement also provides for a default if there is a change in control (as defined) of the Company. A default with respect to the covenants under the Credit Agreement or a default under certain other indebtedness of the Company could result in the obligations under the Credit Agreement being accelerated.

The Credit Agreement permits the Company to pay cash dividends and make other restricted payments (as defined) of up to 50% of the sum of its consolidated net income after January 1, 1992 plus the aggregate net cash proceeds from issuance of the Company's common stock after July 23, 1992, provided that, after giving effect to such dividends and restricted payments, the ratio of the Company's operating cash flow to fixed charges (including cash dividends and restricted payments) for its most recently completed four fiscal quarters is at least 1 to 1. Such ratio for the four quarters ended December 31, 1993 was .93 to 1. If the ratio is lower than 1 to 1, the Company is permitted under the Credit Agreement to pay cash dividends up to \$15 million in the aggregate. In addition, under the indenture relating to the 9% Notes, the aggregate amount of cash dividends and other restricted payments made by the Company after September 30, 1991 may not exceed the sum of \$50 million, 75% of the Company's consolidated net income (or 100% of its consolidated net loss) on a cumulative basis since such date and the aggregate net proceeds received by the Company since such date for shares of its capital stock or debt converted into shares of its capital stock. Under the indenture relating to the 9% Notes, the aggregate amount of cash dividends and other restricted payments which could be made as of December 31, 1993 was \$108 million. As of December 31, 1993, under the

most restrictive of the foregoing tests, the Company could have paid dividends in the aggregate amount of \$15 million.

The indenture governing the 9% Notes contains affirmative and negative covenants, including restrictions on permitted indebtedness, investments in and loans to affiliates, dividends and other distributions with respect to, or redemptions or acquisitions of, capital stock of the Company and its subsidiaries, permitted sale and lease-back transactions and asset dispositions and mergers. A default under the covenants in such indenture or a default under certain other indebtedness of the Company could result in the acceleration of the 9% Notes.

Neither the Credit Agreement nor the 9% Notes are secured by any assets of the Company or its subsidiaries. The indenture governing the 9% Notes provides, subject to certain exceptions, that, if the Company issues any debt secured by a lien on the stock of certain of its subsidiaries or upon any principal property, then such notes must be equally and ratably secured. The Credit Agreement restricts the Company and its subsidiaries from incurring any liens, subject to certain exceptions relating to ordinary course transactions, including purchase money liens securing indebtedness of up to \$35 million in the aggregate.

On October 5, 1993, G-I Holdings issued Senior Discount Notes due 1998. Under the indenture related to such notes, the incurrence by the Company of additional debt and the issuance by the Company of preferred stock would be restricted unless, subject to certain exceptions, the ratio of the Company's consolidated income before income tax, interest, depreciation and amortization expense to its consolidated interest expense for its most recently completed four fiscal quarters is at least 2 to 1.

The Company believes that the fair value of its bank indebtedness, its obligation on a mortgaged property, and its obligation with respect to its industrial revenue bond approximates the book value of such obligations, for the following reasons: the interest rates on the bank indebtedness and the mortgage debt are at floating short-term rates and, accordingly, the fair values of such obligations would not fluctuate with changes in market interest rates; the Credit Agreement also provides for adjustments to the interest rate if there is a change in the credit rating of the Company; and the industrial revenue bond is supported by a bank letter of credit. With respect to the Company's publicly traded debt securities, although such securities are not actively traded, the Company has obtained estimates of fair values from an independent source believed to be

reliable. The estimated fair value of the 9% Notes as of December 31, 1993 and 1992 was \$208.3 and \$206 million, respectively.

The aggregate maturities of long-term debt as of December 31, 1993 for the next five years are as follows:

(Thousands)	
1994	\$ 681
1995	721
1996	732
1997	127,995
1998	102

In the above table, 1997 maturities include the \$127.3 million of borrowings outstanding under the revolving credit facility as of December 31, 1993, based on the expiration of the Credit Agreement in July 1997.

## Note 9

### BENEFIT PLANS

Eligible, full-time employees of the Company are covered by various benefit plans, as described below.

#### Defined Contribution Plan

The Company provides a defined contribution plan for eligible salaried and certain hourly employees. The Company contributes 3% of participants' compensation, plus matching contributions up to an additional 4% of compensation for participants who make voluntary contributions. Each participant is fully vested at all times in the balance of his account. The aggregate contributions made to the plan by the Company and charged to operations were \$4,896,000 for the year 1993, \$3,352,000 for the year 1992, and \$2,941,000 for the year 1991.

Beginning in 1993, the Company is also contributing fixed amounts, ranging from \$50 to \$750 per year depending on age, to the accounts of participants who are not covered by a Company-provided postretirement medical benefit plan. Such contributions by the Company in 1993 totaled \$318,000.

#### Defined Benefit Plans

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees (the "Hourly Retirement Plan"). Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA, plus any additional amounts which the Company may determine to be appropriate.

# Notes to Consolidated Financial Statements continued

The Company's net periodic pension cost for the Hourly Retirement Plan included the following components:

(Thousands)	Year Ended December 31,		
	1993	1992	1991
Service cost	\$ 395	\$ 559	\$ 574
Interest cost	1,134	986	828
Actual (income) loss on plan assets	(985)	75	(450)
Net deferral and amortization of unrecognized prior service cost and actuarial (gains) losses	467	(601)	72
Net periodic pension cost	\$ 1,011	\$ 1,019	\$ 1,024

The following table sets forth the funded status of the Hourly Retirement Plan:

(Thousands)	December 31,	
	1993	1992
Accumulated benefit obligation:		
Vested	\$ 15,030	\$ 11,400
Nonvested	2,010	1,990
Total accumulated benefit obligation	\$ 17,040	\$ 13,390
Projected benefit obligation	\$ 17,040	\$ 13,390
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(9,759)	(7,341)
Projected benefit obligation in excess of plan assets	7,281	6,049
Unrecognized prior service cost	(1,934)	(1,630)
Unrecognized net loss	(3,099)	(1,839)
Unfunded accrued pension cost	\$ 2,248	\$ 2,580

The difference of \$5,033,000 between the projected benefit obligation in excess of plan assets and the unfunded accrued pension cost as of December 31, 1993 has been recorded by the Company as an unfunded liability, offset by an intangible asset of \$1,934,000 and a reduction of stockholders' equity of \$3,099,000. In accordance with SFAS No. 87, "Employers' Accounting for Pensions", the foregoing amounts will be amortized to expense over a period of approximately 15 years, as the Company continues to fund the benefits under the Hourly Retirement Plan, thereby eliminating the unfunded liability, the intangible asset, and the reduction of stockholders' equity.

In determining the projected benefit obligation, the weighted average assumed discount rate was 7.5% and 8.5% for 1993 and 1992, respectively. The expected long-term rate of return on assets used in determining net periodic pension cost was 9% for 1993 and 1992.

The Company also provides a nonqualified defined benefit retirement plan for the benefit of certain key employees. Expense accrued by the Company for future obligations under this plan was \$839,000 for the year 1993, \$301,000 for the year 1992, and \$442,000 for the year 1991. Employees who participate in this plan are not entitled to have employer contributions made to their account under the defined contribution plan.

## Other Benefit Plans

GAF maintained an Equity Appreciation Plan, which was terminated upon completion of the initial public offering. As a result, the Company's 1991 results reflect a one-time charge of \$3.8 million (included in "Selling, general and administrative" expense), representing the Company's portion of the costs in connection with the plan termination.

## Postretirement Medical and Life Insurance

In addition to providing pension benefits, the Company presently provides certain medical and life insurance benefits for all retirees who were formerly hourly employees and for certain retirees who were formerly salaried employees. Current hourly employees may become eligible for benefits if they reach retirement age while working for the Company.

During 1992, the postretirement medical and life insurance plans for salaried employees were terminated, with certain exceptions for salaried employees over age 55 with 10 years of service. Current retirees who were formerly salaried employees will maintain life insurance coverage and receive a Company subsidy of up to \$800 per year towards medical coverage, with certain exceptions.

Effective January 1, 1992, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Under SFAS No. 106, the Company is required to accrue the estimated cost of retiree benefits, other than pensions, during covered employees' active service periods. The Company previously charged the cost of these benefits to expense as the benefits were paid.

The new accounting standard has no effect on the Company's cash disbursements for retiree medical and life insurance benefits, as the Company funds these benefits as they become payable. The cumulative effect as of January 1, 1992 of adopting SFAS No. 106 was a one-time charge against earnings of \$7.1 million (\$.07 per share), after the related income tax benefit of \$3.9 million.

The following table shows the components of the accrued postretirement health care cost liability as included in the Consolidated Balance Sheets as of December 31, 1993 and 1992:

(Thousands)	December 31,	
	1993	1992
Accumulated postretirement benefit obligation:		
Retirees, dependents, and beneficiaries eligible for benefits	\$ 9,031	\$ 8,625
Active employees fully eligible for benefits	3,019	1,077
Active employees not fully eligible for benefits	1,279	1,388
Total accumulated benefit obligation	13,329	11,090
Fair value of plan assets	-	-
Unrecognized net loss	(2,495)	-
Accrued postretirement benefit liability	\$ 10,834	\$ 11,090

The net periodic postretirement benefit cost included the following components:

(Thousands)	Year Ended December 31,	
	1993	1992
Service cost	\$ 75	\$ 133
Interest cost	1,012	915
Net periodic postretirement benefit cost	\$ 1,087	\$ 1,048

For purposes of calculating the accumulated postretirement benefit obligation, the following assumptions were made. Retirees who were formerly salaried employees (with certain exceptions) were assumed to receive a Company subsidy of \$800 per year. With respect to retirees who were formerly hourly employees, most such retirees are subject to a \$5,000 per person lifetime maximum benefit. Subject to such lifetime maximum, a 16% and 10% annual rate of increase in the Company's per capita cost of providing medical benefits was assumed for 1994 for such retirees under and over age 65, respectively. To the extent that the lifetime maximum benefits have not been reached, the foregoing rates were assumed to decrease gradually to 7% and 6%, respectively, by the year 2003 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.5% and 8.5% for 1993 and 1992, respectively.

The health care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 by \$923,000 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year 1993 by \$143,000.

## Note 10

### STOCK OPTION PLAN

The 1991 Incentive Plan for Key Employees (the "1991 Incentive Plan") authorizes the grant of options to purchase a maximum of 3,000,000 shares of the Company's common stock. Options may be either options intended to be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code ("Code") or "nonqualified" stock options for purposes of the Code. The exercise price of options granted must be at least equal to the Fair Market Value (as defined in the 1991 Incentive Plan) of such shares on the date of grant. Options may not be exercised during the first year after the date of grant. Thereafter, each option becomes exercisable as to 20%, 40%, 60%, 80% and 100% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant. Special vesting rules apply to options granted to non-employee directors.

In 1993, the Company extended an offer to holders of outstanding stock options, allowing such holders to exchange their existing options for a lesser number of new options. As a result, 1,177,518 options with exercise prices ranging from \$7.25 to \$14.00 were exchanged for 667,029 new options with an exercise price of \$6.75.

The following is a summary of transactions pertaining to the 1991 Incentive Plan:

(Number of Shares)	1993	1992	1991
Outstanding January 1	1,883,649	836,248	-
Granted	825,509	1,064,322	836,248
Exercised	-	-	-
Exchanged	(1,177,518)	-	-
Terminated	(302,676)	(16,921)	-
Outstanding December 31	1,228,964	1,883,649	836,248
At December 31:			
Exercisable	151,118	164,238	-
Available for grant	1,771,036	1,116,351	2,163,752
Option Price Range Per Share:			
Outstanding	\$ 6.75- \$ 14.00	\$ 11.625- \$ 14.00	\$ 12.25

## Note 11

### RELATED PARTY TRANSACTIONS

Building Materials Corporation of America ("BMCA"), an indirect subsidiary of G-I Holdings, acquired the operating assets and certain liabilities of GAF Building Materials Corporation ("GAF-BMC"), an indirect

## Notes to Consolidated Financial Statements continued

subsidiary of G-I Holdings, as of January 31, 1994. The information below retroactively reflects the formation of BMCA as of the beginning of the periods presented. BMCA has been for many years a major customer for the Company's mineral products. In 1993, BMCA purchased approximately \$43.5 million of mineral products from the Company, representing approximately 8% of the Company's total net sales and approximately 54% of the Company's net sales of mineral products. Such sales by the Company to BMCA totaled \$41.4 and \$30.7 million for the years 1992 and 1991, respectively. Sales to BMCA were made under a supply contract which expired on December 31, 1993, pursuant to which BMCA had agreed to purchase from the Company all of its colored mineral products requirements, except for the requirements of its California roofing plant. Although such contract has expired, BMCA has continued to purchase, and the Company intends to continue to supply to BMCA, all such requirements. The Company and BMCA intend to enter into a new long-term supply contract in 1994.

The receivable from BMCA for sales of mineral products at December 31, 1993 and 1992 was \$2.4 and \$3.6 million, respectively.

Pursuant to a Management Agreement, which expires in May 1994, the Company provides certain general management, administrative, and facilities services to BMCA and GAF Broadcasting Company, Inc., a subsidiary of G Industries ("Broadcasting"). Charges by the Company for providing such services aggregated \$4.8, \$4.5 and \$4.3 million for the years 1993, 1992 and 1991, respectively, and are reflected as reductions of "Selling, general and administrative" expense. Such charges were reduced to an annual rate of \$4.4 million, effective January 1, 1994, to reflect reduced costs to the Company of providing such services and can be further adjusted by amendment if there is a substantial change in the cost to the Company of providing such services. In addition to the management services charge, BMCA paid approximately \$.7, \$.7 and \$.5 million to the Company in 1993, 1992 and 1991, respectively, primarily for telecommunications and information services, which were not encompassed within the Management Agreement.

Under the Management Agreement, in the event the Company provides services to BMCA or Broadcasting substantially greater than those provided in the past, the Company will be reimbursed for the increased costs of providing such services. In addition, the Management Agreement provides that the parties may pay certain of each other's expenses for their mutual administrative convenience until such time as such expenses can be directly billed or charged to the party which incurred them, so long as each party which incurs such expenses promptly reimburses the party which pays the costs thereof.

The Company, BMCA, and Broadcasting intend to enter into a new long-term management agreement in 1994.

See Note 4 for a discussion of the Tax Sharing Agreement.

Under the terms of its revolving credit facility, the Company or any of its subsidiaries may in its discretion (but shall not be obligated to) make loans to affiliates, and provide letters of credit issued for the benefit of such affiliates, up to an aggregate amount not to exceed \$50 million outstanding at any time (see Note 8).

The Company and its subsidiaries also borrow from G-I Holdings and its subsidiaries from time to time at the same rates available to the Company under its revolving credit facility. Such borrowings outstanding at December 31, 1993 and 1992 totaled \$66.8 and \$20.5 million, respectively.

**Note  
12**

**INVESTMENT IN JOINT VENTURE**

Financial data presented below pertain to GAF-Hüls Chemie GmbH ("GAF-Hüls"), a joint venture between the Company and Hüls Aktiengesellschaft, which operates a chemical manufacturing plant in Germany.

The results of this joint venture are accounted for by the equity method. As of December 31, 1993, \$2.7 million of the Company's retained earnings represented undistributed earnings of GAF-Hüls.

(Thousands)	Year Ended December 31,		
	1993	1992	1991
<b>Income Statement data:</b>			
Revenues: From the Company	\$ 6,233	\$ 10,541	\$ 14,895
From others	78,627	88,886	89,326
Total revenues	84,860	99,427	104,221
Costs and expenses	77,011	75,517	78,611
Operating income	\$ 7,849	\$ 23,910	\$ 25,610
Net income of GAF-Hüls	\$ 4,095	\$ 11,045	\$ 16,621
Equity of the Company in earnings of GAF-Hüls	\$ 2,051	\$ 5,996	\$ 7,894
<b>Cash Flow data:</b>			
Cash provided by operating activities:			
Net income	\$ 4,095	\$ 11,045	\$ 16,621
Depreciation/amortization	5,483	5,375	4,389
Working capital changes	(4,794)	6,637	3,028
Other, net	(1,486)	(1,709)	(140)
Total	3,298	21,348	23,898
Cash used in investing activities:			
Capital expenditures	(1,180)	(2,861)	(576)
Cash used in financing activities:			
Dividends paid	(10,756)	(14,318)	(22,788)
Other, net	(1,699)	(1,677)	(361)
Total	(12,455)	(15,995)	(23,149)
Net change in cash and cash equivalents	\$ (10,337)	\$ 2,492	\$ 173
Dividends received by the Company from GAF-Hüls	\$ 5,377	\$ 7,158	\$ 11,403
<b>Balance Sheet data:</b>			
	December 31,		
	1993	1992	1991
Current assets	\$ 40,820	\$ 51,047	\$ 53,611
Noncurrent assets	43,813	51,274	57,137
Total Assets	\$ 84,633	\$ 102,321	\$ 110,748
Current liabilities	\$ 6,776	\$ 11,460	\$ 9,879
Noncurrent liabilities	12,877	14,634	16,357
Total Liabilities	\$ 19,653	\$ 26,094	\$ 26,236
Net assets of GAF-Hüls	\$ 64,980	\$ 76,227	\$ 84,512
Equity of the Company in net assets of GAF-Hüls	\$ 32,308	\$ 37,938	\$ 41,588
Effect of translation adjustments on the Company's investment in GAF-Hüls	\$ (2,304)	\$ (2,488)	\$ 1,010



# Notes to Consolidated Financial Statements continued

## Note

13

### BUSINESS SEGMENT INFORMATION

(Millions)	Year Ended December 31,		
	1993	1992	1991
Net sales:			
Specialty Derivative Chemicals	\$ 434.5	\$ 435.5	\$ 411.4
Mineral Products*	81.3	101.9	85.4
Other	32.5	33.4	29.0
Net sales	\$ 548.3	\$ 570.8	\$ 525.8
Operating income:			
Specialty Derivative Chemicals	\$ 59.8	\$ 78.1	\$ 99.0
Mineral Products	16.9	27.6	20.7
Other	2.2	2.0	2.2
Provision for restructuring**	(13.8)	-	-
Total operating income	\$ 65.1	\$ 107.7	\$ 121.9
Identifiable assets:			
Specialty Derivative Chemicals	\$ 972.6	\$ 1,008.1	\$ 963.6
Mineral Products	161.5	164.6	161.6
Other	109.2	97.7	26.0
Total assets	\$ 1,243.3	\$ 1,270.4	\$ 1,151.2
Capital expenditures and acquisitions:			
Specialty Derivative Chemicals	\$ 54.5	\$ 63.0	\$ 29.7
Mineral Products	8.3	7.4	4.5
Other	0.1	0.1	0.2
Total	\$ 62.9	\$ 70.5	\$ 34.4
Depreciation:			
Specialty Derivative Chemicals	\$ 22.1	\$ 19.7	\$ 17.9
Mineral Products	6.2	5.5	4.9
Other	0.4	0.4	0.4
Total	\$ 28.7	\$ 25.6	\$ 23.2

\* Includes sales to BMCA of \$43.5, \$41.4 and \$30.7 million for the years 1993, 1992 and 1991, respectively.

\*\* On a segment basis, the provision for restructuring (see Note 3) relates to Specialty Derivative Chemicals (\$11.8 million), Mineral Products (\$3 million), and Other (\$1.7 million).

## Note

**14****GEOGRAPHIC INFORMATION**

Results set forth below for foreign operations represent sales and operating income of foreign-based subsidiaries.

(Millions)	Year Ended December 31,		
	1993	1992	1991
Net sales:			
Domestic operations*	\$ 286.8	\$ 304.5	\$ 278.0
Europe**	167.7	188.1	173.9
Asia-Pacific	69.3	57.0	53.1
Other foreign operations	24.5	21.2	20.8
Net sales	\$ 548.3	\$ 570.8	\$ 525.8
Operating income:			
Domestic operations	\$ 26.9	\$ 52.1	\$ 63.8
Europe	35.7	43.6	44.6
Asia-Pacific	13.2	9.8	11.0
Other foreign operations	3.1	2.2	2.5
Provision for restructuring***	(13.8)	-	-
Operating income	65.1	107.7	121.9
Equity in earnings of joint venture	2.1	6.0	7.9
Interest expense and other, net	(17.4)	(27.9)	(54.1)
Income before income taxes and cumulative effect of accounting change	\$ 49.8	\$ 85.8	\$ 75.7
Identifiable assets:			
Domestic operations	\$ 1,091.2	\$ 1,112.4	\$ 998.6
Europe****	118.5	125.6	125.4
Asia-Pacific	24.9	20.6	18.5
Other foreign operations	8.7	11.8	8.7
Total assets	\$ 1,243.3	\$ 1,270.4	\$ 1,151.2

\* Net sales-domestic operations excludes sales by the Company's domestic subsidiaries to foreign-based subsidiaries of \$113.6, \$118.5 and \$107.9 million for 1993, 1992 and 1991, respectively.

\*\* Net sales-Europe excludes sales by the Company's European subsidiaries to domestic and other foreign-based subsidiaries of \$7.2, \$13.1 and \$13.6 million for 1993, 1992 and 1991, respectively.

\*\*\* On a geographic basis, the provision for restructuring (see Note 3) relates to domestic operations (\$7.6 million), Europe (\$5.7 million), Asia-Pacific (\$4 million), and other foreign operations (\$1 million).

\*\*\*\* Identifiable assets-Europe include the Company's 50% ownership of GAF-Hüls.

# Notes to Consolidated Financial Statements continued

## Note 15

### GUARANTOR FINANCIAL DATA (for the Issuers and the Subsidiary Guarantors)

As described in Note 8, the 9% Notes are guaranteed by the Company and the Subsidiary Guarantors. Presented below is combined condensed financial information for the Issuers and the Subsidiary Guarantors, which together are interdependent and with their subsidiaries

constitute all of the domestic subsidiaries of the Company. Financial information for the Company's foreign subsidiaries, including its investment in GAF-Hüls, is reflected in the following financial information by the equity method of accounting.

### COMBINED CONDENSED STATEMENTS OF INCOME

#### For the Issuers and the Subsidiary Guarantors

(Millions)	Year Ended December 31,		
	1993	1992	1991
Net sales	\$ 400.4	\$ 423.0	\$ 385.9
Costs and expenses:			
Cost of products sold	276.0	274.4	235.0
Selling, general and administrative	83.6	82.8	73.3
Provision for restructuring	7.6	-	-
Goodwill amortization	13.9	13.7	13.8
Total costs and expenses	381.1	370.9	322.1
Operating income	19.3	52.1	63.8
Interest expense	(24.4)	(30.1)	(52.0)
Equity in income from foreign subsidiaries and 50% owned joint venture	31.0	41.3	49.3
Other income, net	20.9	15.7	7.1
Income before income taxes and cumulative effect of accounting change	46.8	79.0	68.2
Income taxes	(17.2)	(21.8)	(17.6)
Income before cumulative effect of accounting change	29.6	57.2	50.6
Cumulative effect of change in accounting for postretirement benefits other than pensions, net of related income tax benefit	-	(7.1)	-
Net income	\$ 29.6	\$ 50.1	\$ 50.6

## COMBINED CONDENSED BALANCE SHEETS

## For the Issuers and the Subsidiary Guarantors

(Millions)	December 31,	
	1993	1992
<b>Assets</b>		
Current Assets:		
Cash and short-term investments	\$ 72.8	\$ 70.7
Accounts receivable, net	3.4	31.8
Inventories	71.3	66.7
Other current assets	12.5	10.5
Receivable from related parties, net	-	8.2
<b>Total Current Assets</b>	<b>160.0</b>	<b>187.9</b>
Property, plant and equipment, net	449.9	427.2
Excess of cost over net assets of businesses acquired, net	457.1	470.9
Advances to and equity in investment in foreign subsidiaries and 50% owned joint venture	123.9	134.6
Other assets	24.2	26.4
<b>Total Assets</b>	<b>\$ 1,215.1</b>	<b>\$ 1,247.0</b>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Short-term debt	\$ 12.7	\$ -
Current maturities of long-term debt	0.7	0.6
Loan payable to related party	66.8	20.5
Accounts payable	26.0	24.8
Accrued liabilities	37.0	28.1
Payable to related parties, net	3.6	-
Income taxes	-	9.5
<b>Total Current Liabilities</b>	<b>146.8</b>	<b>83.5</b>
Long-term debt less current maturities	367.7	493.0
Deferred income taxes	92.5	102.5
Other liabilities	74.1	51.0
Stockholders' Equity	534.0	517.0
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,215.1</b>	<b>\$ 1,247.0</b>

# Notes to Consolidated Financial Statements continued

## COMBINED CONDENSED STATEMENTS OF CASH FLOWS

### For the Issuers and the Subsidiary Guarantors

(Millions)	Year Ended December 31,		
	1993	1992	1991
Cash and short-term investments, beginning of year	\$ 70.7	\$ 0.1	\$ 5.0
Cash provided by operating activities:			
Net income	29.6	50.1	50.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	26.8	23.9	22.0
Goodwill amortization	13.9	13.7	13.8
Cumulative effect of accounting change	-	7.1	-
Provision for restructuring	7.6	-	-
Deferred income taxes	(13.2)	6.8	2.5
(Increase) decrease in working capital items	(5.6)	(7.4)	(8.3)
Change in advances to and equity in investment in foreign subsidiaries and 50% owned joint venture	10.7	(11.7)	(27.1)
(Increase) decrease in net receivable from/payable to related parties	10.2	(3.0)	(1.7)
Change in cumulative translation adjustment	(6.3)	(10.2)	(0.2)
Other, net	4.4	(6.4)	(13.0)
Net cash provided by operating activities	78.1	62.9	38.6
Cash used in investing activities:			
Capital expenditures and acquisitions	(54.0)	(61.4)	(30.7)
Cash provided by (used in) financing activities:			
Proceeds from sale of accounts receivable	24.3	-	-
Proceeds from termination of interest rate swap agreements	25.1	-	-
Proceeds from initial public offering	-	-	281.3
Increase in short-term debt	12.7	-	-
Increase (decrease) in long-term debt, net	(125.8)	60.5	(291.7)
Loan from related party	46.3	20.5	-
Financing fees and expenses	(0.2)	(6.9)	-
Dividends and distributions	(5.0)	(5.0)	(27.6)
Capital contribution by parent company	-	-	25.2
Other, net	0.6	-	-
Net cash provided by (used in) financing activities	(22.0)	69.1	(12.8)
Net change in cash and short-term investments	2.1	70.6	(4.9)
Cash and short-term investments, end of year	\$ 72.8	\$ 70.7	\$ 0.1

The advances to and equity in investment in foreign subsidiaries and 50% owned joint venture and the related equity in income from foreign subsidiaries and 50% owned joint venture include the net assets and operating results, respectively, of the Company's wholly owned foreign subsidiaries and its 50% owned joint venture, GAF-Hüls (see Note 12). Domestic operating income includes \$25, \$24.1 and \$28.9 million of profits on sales made by the Company's domestic subsidiaries to its foreign-based subsidiaries for the years 1993, 1992

and 1991, respectively. Profits earned on sales to the foreign-based subsidiaries which were included in the foreign-based subsidiaries' inventories at the end of each period have been eliminated from domestic operating income and from advances to and equity in investment in foreign subsidiaries.

Dividends received from foreign-based subsidiaries and GAF-Hüls aggregated \$43.9, \$36.1 and \$40.1 million for the years 1993, 1992 and 1991, respectively.

## Note 16

### ACQUISITIONS

In March 1992, the Company acquired the Van Dyk worldwide personal care business ("Van Dyk"). Van Dyk is a leading producer of ultraviolet absorber chemicals, pearlescent pigments, emollients and emulsifiers. The acquisition was financed from bank borrowings and was accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair values of the identifiable net assets acquired. The results of Van Dyk, including sales of \$22.5 million for the year 1992, are included in the Consolidated Statements of Income from the date of acquisition; the effect was not material to consolidated operations in 1992.

In February 1993, the Company acquired the MTM fine chemicals business, which produces a broad range of pharmaceutical intermediates, biological buffers and pheromones and several bulk active pharmaceuticals. The acquisition, which was financed by bank borrowings, was accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair values of the identifiable net assets acquired. The results of MTM are included in the Consolidated Statement of Income from the date of acquisition; the effect was not material to consolidated operations in 1993.

## Note 17

### COMMITMENTS AND CONTINGENCIES

GAF, G-I Holdings, G Industries and GCC are presently dependent upon the earnings and cash flow of their subsidiaries (including the Company) in order to satisfy obligations as of December 31, 1993 in the amount of \$410.6 million of 11.125% Senior Discount Notes due October 1998, the asbestos-related claims discussed below, certain potential tax liabilities discussed in Note 4, and approximately \$104 million of various other liabilities. In the event that such parent corporations were unable to meet their cash needs from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise or to make loans to parent corporations, or to cause GCC to sell shares of the Company's common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries should have a material adverse effect on the operations, liquidity or capital resources of the Company.

### *Asbestos Litigation Against GAF*

GAF has advised the Company that, as of December 31, 1993, GAF had been named as a defendant in approximately 53,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber, having resolved approximately 156,000 other lawsuits involving similar claims, and as a co-defendant in approximately 23 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises.

The reserve of GAF and G-I Holdings for asbestos bodily injury claims, as of December 31, 1993, was approximately \$311.1 million (net of estimated recoveries from products liability insurance policies of approximately \$280 million and after having discounted certain liabilities), before related deferred tax benefits of approximately \$121 million. GAF and G-I Holdings have advised the Company that certain components of the asbestos-related liability have been reflected on a discounted basis in their financial statements, and that the aggregate undiscounted liability as of December 31, 1993 was \$362.5 million. As of such date, G-I Holdings' stockholder's equity was a deficit of \$42.6 million.

GAF's and G-I Holdings' estimate of liability for asbestos claims is based on the Settlement described below being approved and on assumptions which relate, among other things, to the number of new cases filed, the cost of resolving (either by settlement or litigation or through the mechanism established by the Settlement) pending and future claims, the realization of related tax benefits, the favorable resolution of pending litigation against certain insurance companies and the amount of recoveries from various insurance companies.

On January 15, 1993, the members of the Center for Claims Resolution (the "CCR"), a non-profit organization of asbestos defendants including GAF, entered into a class-action settlement agreement (the "Settlement") to resolve all future asbestos bodily injury claims (other than claims of those persons who "opted out" of the class by January 24, 1994) against GAF and other members of the CCR. The Settlement, if approved and effective, would operate to limit GAF's liability for future asbestos claims to persons who do not "opt out" of the Settlement by placing a dollar limit on awards and a limit on the number of claims that will be paid to such persons in any one year over the first ten years of the Settlement.

GAF and G-I Holdings have advised the Company that they believe that their reserves, which reflect the discounting of a portion of the liabilities, adequately

reflect their asbestos-related liabilities. GAF and G-I Holdings have also advised the Company that they anticipate that substantially all the payments in connection with GAF's and G-I Holdings' liability relating to asbestos bodily injury claims will be made by the end of the year 2004, and that, while they are unable to estimate the amount of liability with respect to claims to be resolved after such period, they believe that GAF will resolve, prior to that time, substantially all the court cases currently pending against it, and that it will further resolve substantially all the claims filed under the Settlement on a relatively current basis, so that the number of claims pending against GAF at the end of such period will be substantially diminished from current levels. GAF and G-I Holdings have advised the Company that, as a result of these and other factors, they believe that the resolution of any claims after such period will not have a material adverse effect on their respective financial positions or results of operations.

Neither the Company nor the assets or operations of the Company, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims, but the Company cannot predict whether any such claims will be asserted against it or the outcome of any litigation related to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of common stock of the Company, and such enforcement could result in a change of control of the Company.

#### **Environmental Litigation**

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and similar state laws, in which recovery is sought for the cost of cleanup of contaminated waste disposal sites. A number of the Environmental Claims are in the early stages and others have been dormant for protracted periods.

At each site, the Company anticipates, although there can be no assurance, that liability will be apportioned among the companies found to be responsible for the presence of hazardous substances at the site. Although it is difficult to predict the ultimate resolution of these claims, based on the Company's evaluation of the financial responsibility of the parties involved and their insurers, the merits of the defenses of

the Company and other parties and the nature and terms of cost sharing arrangements now in place among the potentially responsible parties, the Company estimates that its liability in respect of all Environmental Claims, as of December 31, 1993, will be approximately \$17.2 million. After a reduction for anticipated insurance recoveries (discussed below) of \$7 million, the Company estimates that its net liability will be approximately \$10.2 million.

Although the Company believes it is entitled to substantially full defense and indemnity under its insurance policies for all Environmental Claims, the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for the matters discussed above. Nevertheless, the insurers have agreed to reimburse the Company for a substantial portion of its indemnity obligations in a number of these cases and the Company has also reached agreements with certain of its insurers regarding the Company's defense costs and other related expenses and, pursuant to these agreements, certain insurers are currently paying a portion of the Company's defense costs. After considering the relevant legal issues, prevailing commercial practice in the resolution of similar claims and the agreements discussed above, the Company believes that it is probable that it will receive the anticipated insurance recoveries, although there can be no assurance in this regard.

In the opinion of the Company's management, the environmental matters referred to herein will be resolved and amounts will be paid gradually over a period of years and, accordingly, the resolution of such matters should not be material to the business, liquidity or financial position of the Company. However, adverse decisions or events, particularly as to the merits of the Company's factual and legal defenses to liability and the financial responsibility of the other parties involved at each site, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

In June 1989, the Company entered into a Consent Order with the New Jersey Department of Environmental Protection and Energy requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently \$7.5 million) to guarantee the Company's performance. The remediation required by the order encompasses the following: (1) the elimination of water-borne contaminant migration from the site at an estimated cost, as of December 31, 1993, of approximately \$5.7 million (\$1.1 million after anticipated insurance recoveries) and (2) the creation of a site development

plan to deal with soil contamination. Although no assurances can be given and the site development plan has not been developed, the Company believes that the soil remediation requirements will be met through land use and access controls and, therefore, that the majority of the costs will be spent in connection with the site development plan. The Company believes that any remaining costs, such as that of long-term monitoring, will not be material.

The Company estimates that capital expenditures necessary in order to maintain the Company's compliance with environmental laws and regulations will be approximately \$3.5 and \$3.9 million in 1994 and 1995, respectively. The Company believes that its manufacturing facilities comply in all material respects with applicable environmental laws and regulations, and, while it cannot predict whether more burdensome requirements will be adopted in the future, it believes that any potential liability for such compliance will not materially affect its business, liquidity or financial position.

#### **Lease Commitments**

Leases for certain equipment at two of the Company's mineral products plants are accounted for as capital leases and are included in "Property, plant and equipment, net", at December 31, 1993 in the amount of \$.6 million. The Company also has operating leases for transportation, production and data processing equipment and for various buildings. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1993 were as follows:

(Thousands)	Capital Leases	Operating Leases
1994	\$ 162	\$ 2,324
1995	162	2,122
1996	162	1,650
1997	162	866
1998	121	167
Later years	-	2
Total minimum payments	769	\$ 7,131
Less interest included above	141	
Present value of net minimum lease payments	\$ 628	

#### **Other Commitment**

The Company intends to construct a European manufacturing facility to meet the needs of the Company's European business. The Company is currently considering a number of alternative plant sites and plans to develop the facility in stages over a four-to-six year period. The Company anticipates utilizing internally generated funds and/or independent financing to fund the cost of the project. The first phase of the European plant would increase the Company's polymer capacity.



# *Report of Independent Public Accountants*

INTERNATIONAL SPECIALTY PRODUCTS INC.

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation and an 80.6% owned subsidiary of GAF Chemicals Corporation) and subsidiaries as of December 31, 1992 and 1993, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial

statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 1992 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 9 to the consolidated financial statements, effective January 1, 1992, the Company changed its method of accounting for postretirement benefits other than pensions.

*Arthur Andersen & Co.*

Arthur Andersen & Co.  
Roseland, New Jersey  
March 8, 1994

# Supplementary Data (unaudited)

INTERNATIONAL SPECIALTY PRODUCTS INC.

## Quarterly Financial Data (unaudited)

(Millions, except per share amounts)	1993 By Quarter				1992 By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net sales	\$ 146.2	\$ 148.2	\$ 129.3	\$ 124.6	\$ 142.1	\$ 151.8	\$ 142.3	\$ 134.6
Cost of products sold	89.4	83.1	77.2	79.8	79.4	83.4	75.5	86.6
Gross profit	\$ 56.8	\$ 65.1	\$ 52.1	\$ 44.8	\$ 62.7	\$ 68.4	\$ 66.8	\$ 48.0
Operating income (loss)*	\$ 21.4	\$ 28.3	\$ 17.7	\$ (2.3)	\$ 31.3	\$ 34.1	\$ 31.6	\$ 10.7
Income (loss) before income taxes and cumulative effect of accounting change	\$ 17.6	\$ 22.5	\$ 15.1	\$ (5.4)	\$ 25.8	\$ 28.0	\$ 27.4	\$ 4.6
Income taxes:								
Annual (provision) benefit	(6.1)	(7.9)	(5.3)	2.0	(8.7)	(9.5)	(9.2)	(1.2)
Adjustment of deferred tax liability for change in tax rate	-	-	(2.9)	-	-	-	-	-
Income (loss) before cumulative effect of accounting change	11.5	14.6	6.9	(3.4)	17.1	18.5	18.2	3.4
Cumulative effect of change in accounting for postretirement benefits other than pensions, net of related income tax benefit	-	-	-	-	(7.1)	-	-	-
Net income (loss)	\$ 11.5	\$ 14.6	\$ 6.9	\$ (3.4)	\$ 10.0	\$ 18.5	\$ 18.2	\$ 3.4
Earnings per common share**:								
Income (loss) before cumulative effect of accounting change	\$ .12	\$ .15	\$ .07	\$ (.03)	\$ .17	\$ .19	\$ .18	\$ .03
Cumulative effect of accounting change	-	-	-	-	(.07)	-	-	-
Net income (loss)	\$ .12	\$ .15	\$ .07	\$ (.03)	\$ .10	\$ .19	\$ .18	\$ .03

\* The Company recorded a \$13.8 million pre-tax provision for restructuring in the fourth quarter of 1993 (see Note 3 of Notes to Consolidated Financial Statements).

\*\* In accordance with the provisions of APB Opinion No. 15, earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the quarters.

### MARKET FOR COMMON STOCK

The following information pertains to the Company's common stock, which is traded on the New York Stock Exchange. As of March 4, 1994, there were 408 holders of record of the Company's outstanding common stock.

(Dollars)	1993 By Quarter				1992 By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Price Range of Common Stock:								
High	\$ 9 ¾	\$ 7 ¾	\$ 7 ½	\$ 7 ¾	\$ 15 ¾	\$ 12 ¾	\$ 13 ¾	\$ 13 ½
Low	5 ¾	6 ¼	6 ½	6 ¾	10 ¾	9 ¾	10 ¾	8 ¾
Cash Dividends Per Common Share	-	\$ .025	-	\$ .025	-	\$ .025	-	\$ .025

The Company currently pays a semi-annual dividend of 2.5 cents per share. The declaration and payment of dividends is at the discretion of the Board of Directors of the Company. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 8 of Notes to Consolidated Financial Statements for information regarding restrictions on the payment of dividends. The timing and amount of dividends paid is dependent upon, among other things, the Company's results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Board of Directors will declare and pay dividends or as to the amounts thereof.

## *Board of Directors and Officers*

### **BOARD OF DIRECTORS**

**Mark A. Buckstein**  
Executive Vice President,  
General Counsel and Secretary,  
International Specialty Products Inc.

**Charles M. Diker**  
Chairman of the Board,  
Cantel Industries Inc.

**Carl R. Eckardt**  
President and  
Chief Operating Officer,  
International Specialty Products Inc.

**Harrison J. Goldin**  
Partner,  
Goldin Associates, L.P.

**Samuel J. Heyman**  
Chairman of the Board and  
Chief Executive Officer,  
International Specialty Products Inc.

**Sanford Kaplan**  
Private Investor

**Burton J. Manning**  
Chairman and Chief Executive Officer,  
J. Walter Thompson Company

### **OFFICERS**

**Samuel J. Heyman**  
Chairman of the Board and  
Chief Executive Officer

**Carl R. Eckardt**  
President and  
Chief Operating Officer

**Mark A. Buckstein**  
Executive Vice President,  
General Counsel and Secretary

**James J. Conway**  
Senior Vice President and  
General Manager,  
Specialty Chemicals

**Richard B. Olsen**  
Senior Vice President and  
Chief Financial Officer

**James P. Rogers**  
Senior Vice President, Finance  
and Treasurer

**James J. Strupp**  
Senior Vice President,  
Human Resources

**Paul J. Aronson**  
Vice President, Taxes

**Arthur Dresner**  
Vice President, Licensing  
and Advanced Materials

**T. H. King**  
Vice President and  
General Manager,  
Mineral Products

**Mark A. Presto**  
Vice President and  
Assistant Treasurer

**Jonathan H. Stern**  
Vice President and  
Controller

## *International Specialty Products Locations*

### **UNITED STATES**

#### **MANUFACTURING**

Alabama, Huntsville  
Kentucky, Calvert City  
Missouri, Annapolis  
New Jersey, Belleville  
New Jersey, Chatham  
Ohio, Columbus  
Pennsylvania, Blue Ridge Summit  
Tennessee, Memphis  
Texas, Seadrift  
Texas, Texas City  
Wisconsin, Pembine

#### **R&D**

Alabama, Huntsville  
Kentucky, Calvert City  
Maryland, Hagerstown  
New Jersey, Belleville  
New Jersey, Chatham  
New Jersey, Wayne  
Texas, Texas City

#### **SALES**

California, Irvine  
Illinois, Lombard  
Maryland, Hagerstown  
New Jersey, Belleville  
New Jersey, Bridgewater  
New Jersey, Chatham

New Jersey, Wayne  
North Carolina, Charlotte  
Tennessee, Memphis  
Texas, Dallas

### **INTERNATIONAL**

#### **MANUFACTURING**

Belgium, Sint-Niklaas  
Brazil, Sao Paulo  
Canada, Mississauga, Ontario  
Singapore, Tuas

#### **R&D**

Belgium, Sint-Niklaas  
Germany, Cologne  
Great Britain, Guildford  
Singapore, Science Park

#### **SALES**

Argentina, Buenos Aires  
Australia, Box Hill, Victoria  
Australia, Silverwater, N.S.W.  
Austria, Vienna  
Belgium, Sint-Niklaas  
Brazil, Sao Paulo  
Canada, Mississauga, Ontario  
Canada, Ville St. Laurent, Quebec  
China, Beijing  
China, Shanghai  
Denmark, Copenhagen

Finland, Helsinki  
France, Paris  
Germany, Frechen  
Great Britain, Guildford  
Great Britain, Manchester  
Hong Kong  
Hungary, Budapest  
Ireland, Dublin  
Italy, Milan  
Japan, Osaka  
Japan, Tokyo  
Korea, Seoul  
Mexico, Mexico City  
Netherlands, Schiedam  
New Zealand, Otahuhu  
Norway, Oslo  
Puerto Rico, Rio Piedras  
Russia, Moscow  
Singapore, Southpoint  
Spain, Barcelona  
Sweden, Johanneshov  
Switzerland, Zug  
Taiwan, Taipei  
Thailand, Bangkok  
Turkey, Istanbul  
Venezuela, Caracas

#### **AFFILIATE**

GAF-Hüls Chemie GmbH  
Germany, Marl

## *Shareholder Information*

### **ANNUAL MEETING**

The 1994 Annual Meeting of Shareholders is scheduled to be held at 10 a.m., Tuesday, May 31, at:

The Bank of New York  
48 Wall Street, 11th Floor  
New York, New York 10286

### **FORM 10-K**

A copy of the Company's Annual Report on Form 10-K (including financial statements and schedules), as filed with the Securities and Exchange Commission, may be obtained free of charge by writing to:

International Specialty Products  
Shareholder Relations Department  
1361 Alps Road  
Wayne, New Jersey 07470  
(201) 628-4000  
(800) 526-5315

### **STOCK TRANSFER AGENT AND REGISTRAR**

The Bank of New York  
101 Barclay Street  
New York, New York 10007  
(800) 524-4458

### **INVESTOR RELATIONS**

Inquiries should be directed to:

Robert K. Steidlitz  
Director, Investor Relations  
International Specialty Products  
1361 Alps Road  
Wayne, New Jersey 07470  
(201) 628-3005

International Specialty Products Inc. common stock is listed on the New York Stock Exchange (symbol: "ISP").



INTERNATIONAL SPECIALTY PRODUCTS INC.  
1361 ALPS ROAD  
WAYNE, NEW JERSEY 07470

**EXHIBIT 21**

**LIST OF SUBSIDIARIES**

<b><u>COMPANY</u></b>	<b><u>STATE OF INCORPORATION</u></b>	<b><u>D/B/A</u></b>
International Specialty Products Inc.	Delaware	
ISP Management Company, Inc.	Delaware	
ISP Minerals Inc.	Delaware	
ISP Filters Inc.	Delaware	
ISP Technologies Inc.	Delaware	
ISP Mineral Products Inc.	Delaware	
ISP Environmental Services Inc.	Delaware	
ISP Realty Corporation	Delaware	
ISP Real Estate Company, Inc.	Delaware	
ISP Investments Inc.	Delaware	
ISP DS Corp.	Delaware	
ISP Global Technologies Inc.	Delaware	
ISP Chemicals Inc.	Delaware	
ISP Newark Inc.	Delaware	
ISP Van Dyk Inc.	Delaware	
ISP Fine Chemicals Inc.	Delaware	

**EXHIBIT 23.1**



# ARTHUR ANDERSEN & CO.

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Form 10-K, of our report dated March 8, 1994, included in the Company's Annual Report to Stockholders for the fiscal year ended December 31, 1993.

*Arthur Andersen & Co.*  
ARTHUR ANDERSEN & CO.

Roseland, New Jersey  
March 30, 1994

**EXHIBIT 23.2**

# ARTHUR ANDERSEN & CO.

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statement File No. 33-54724.

*Arthur Andersen & Co.*  
ARTHUR ANDERSEN & CO.

Roseland, New Jersey  
March 30, 1994